OFFICIAL PUBLICATION
NIBA

The National Insurance Buyer

CORPORATE INSURANCE MANAGEMENT

• AN INFORMED BUYER IS A BETTER BUYER •

MRS. L. M. CLORE
President — Cincinnati Chapter
National Insurance Buyers Association, Inc.
(See Editorial Page)

NATIONAL INSURANCE BUYERS ASSOCIATION, INC.

Volume 1 JUNE 1954 Number 2

1953 RECORD OF PERFORMANCE

Figures for the Past Year Furnish Proof of Continued ADT Protection Efficiency

The accompanying statistical analysis of ADT performance during 1953 and for the past ten years furnishes impressive evidence of the efficacy of ADT Central Station Protection Services in establishing a high degree of immunity from fire and burglary losses.

It is essential to consider that this record represents only the protection of *tangible* assets. An important corollary is the value of ADT Services in safeguarding the *intangible* assets of our subscribers—customers, good will, services of skilled employees, valuable records and other items necessary to preserve the earning power of a going business.

Performance of this type can be obtained only through continuous supervision and proper maintenance of protective signaling systems as supplied by ADT Central Station Services. May we tell you how ADT Services can give you better protection at lower cost by safeguarding your property *automatically*.

Call our Commercial Department if we are listed in your phone book; or write to our Executive Offices.

SPRINKLER SUPERVISORY AND WATERFLOW ALARM SERVICE

Supervisory alarms, indicating temporary impairment of sprinkler systems	189,268
Waterflow alarms, caused by fires or serious leaks	2,708
Manual fire alarms	157
Reported values of properties protected	$13,088,723,000
Ratio of losses to values protected	2/100th of 1%
Fire loss immunity in 1953	$99\frac{98}{100}\%$
AVERAGE FIRE LOSS IMMUNITY DURING THE PAST TEN YEARS	$99\frac{97}{100}\%$

WATCHMAN'S REPORTING AND MANUAL FIRE ALARM SERVICE

Investigations of failures of watchmen to signal Central Station on schedule	228,584
Total number of signals recorded	325,178,392
Watchmen's patrol efficiency	99 93/100th%
Alarms from Manual Fire Alarm Boxes	1,362
Reported values of properties protected	$18,907,278,000
Ratio of losses to values protected	2/100ths of 1%
Fire loss immunity in 1953	$99\frac{98}{100}\%$
AVERAGE FIRE LOSS IMMUNITY DURING THE PAST TEN YEARS	$99\frac{96}{100}\%$

BURGLAR AND HOLDUP ALARM SERVICES

Attacks on ADT Protection	2,184
Entrances effected	1,259
Captures as result of burglar, holdup and other emergency alarms	830
Reported values of properties protected	$3,919,077,000*
Ratio of losses to values protected	1/100th of 1%
Burglary loss immunity in 1953	$99\frac{99}{100}\%$
AVERAGE BURGLARY LOSS IMMUNITY DURING THE PAST TEN YEARS	$99\frac{99}{100}\%$

*Not including ADT-protected values in bank vaults, the U.S. Treasury, Federal Reserve Banks and branches, the U.S. Mints and the U.S. Bullion Depositories at Fort Knox, Ky., and West Point, N. Y.

ADT

Controlled Companies of
AMERICAN DISTRICT TELEGRAPH COMPANY
A NATIONWIDE ORGANIZATION
Executive Offices
155 SIXTH AVENUE • NEW YORK 13 • N. Y.

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SOUTHERN CALIFORNIA INSURANCE BUYERS ASSOCIATION
Meetings—3rd Wednesday of each month. Dinner, 6:00 P.M., Mona Lisa, Los Angeles
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Secretary—E. C. Jones, Southern California Edison Co., Los Angeles, Calif.
Treasurer—George P. Kohl, California Bank, Los Angeles, Calif.

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Vice Pres.—F. G. Sutherland, Illinois Power Company, Decatur, Illinois
Secty-Treas.—A. A. Baker, Funk Bros. Seed Co., Bloomington, Illinois

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Vice Pres.—Robert M. Cone, Mathieson Chemical Co., Baltimore
Secty-Treas.—Miss E. C. Jacobs, The Maryland Drydock Company, Baltimore

MID-WEST INSURANCE BUYERS ASSOCIATION, INC.
Meetings—3rd Thursday of each month, September through May. Dinner, 6:00 P.M., Chicago Bar Association, Chicago.
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Secretary—Miss Ann Auerbach, Goldblatt Bros., Inc., Chicago, Ill.
Treasurer—Louis J. Ronder, Continental Ill. National Bank and Trust, Chicago, Ill.

MINNESOTA CHAPTER
Meetings—4th Tuesday of each month. Dinner, 6:30 P.M. at Covered Wagon, Minneapolis.
President—H. E. Towner, Minnesota Mining and Mfg. Co., St. Paul, Minnesota
Vice Pres.—A. Don Marvin, Green Giant Company, LeSueur, Minnesota
Secty-Treas.—Paul Mucke, Gamble-Skogmo, Inc., Minneapolis, Minnesota

NEW YORK CHAPTER
Meetings—4th Thursday each month, except July and August. Luncheon, 12:20 P.M., Hotel Martinique, New York City
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1st Vice Pres.—Raymond Cox, Arabian American Oil Co., New York
2nd Vice Pres.—W. D. McGuinness, The Port of New York Authority, New York
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Meetings—1st Wednesday each month, except July and August. Luncheon, 12:00 Noon, Netherland Plaza, Cincinnati
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Meetings—2nd Wednesday of each month. Dinner, 6:00 P.M. Multnomah Hotel
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Vice Pres.—W. A. Patterson, Dant & Russell Co., Portland
Secty-Treas.—William J. Wood, Roberts Bros., Portland

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Vice Pres.—William H. Lockhard, Publicker Industries, Philadelphia
Secretary—J. Stephen Peters, Pennsylvania Salt Mfg Co., Philadelphia
Treasurer—Ernest N. Gilbert, Penn Mutual Life Insurance Co., Philadelphia

The National Insurance Buyer-
Corporate Insurance Management

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To Our Ladies, God Bless 'em

Paul Gallico, famous author, once wrote, "If the girl with a job stayed home from work tomorrow, the nation would come to a standstill, business would collapse, nobody would be able to find a damned thing. The girl with a job is the best dressed woman in the world . . . does it on nothing flat . . . . has to be right the first time. For years, this girl has been America's quiet, unsung heroine of nine A.M. to five P.M."

But the "unsung" heroine is not so "unsung" any more. Some 19 million women work for a living in this country of ours — and each year more and more women are being recognized in important and key positions — and more and more corporations are recognizing that ability is not limited to sex! Getting ahead in business — is getting a bigger and better job . . . and the adage that "there's always room at the top" applies to **women** as well as men.

The really successful woman executive did not just happen. She almost always has a great talent for **human relations** — and in perhaps no other field of endeavor is this quality as apparent or important as in the woman "Corporate Insurance Buyer".

From the very outset of humanity, woman's interest and instinct has been to PROTECT, to AVOID RISKS for her family and home — to buy with prudence and judgment — whether it be the family food, clothing, shelter or health . . . any of the human elements of protection.

Is it any wonder then, that the woman who buys the "insurance protection" for corporations is a **fundamental success** from the beginning? She is endowed with an inate instinct to protect, a strong desire to invest that protection wisely and adequately — and added to these elements, she has a very keen sense of responsibility toward those for whom she makes that investment.

Insurance is in touch with almost every facet of our existence today. It keeps in tune with the economic and financial pulse of our nation — and the universe. It seeks to develop at the same pace as science and industry. It is a SERVICE — and as such, women are normally attracted to it.

It would be presumptious on our part to try to evaluate the technical training or the personal prerequisites needed to become a corporate insurance buyer. She is—all at once—a securities analyst, a mortgage and loan supervisor, a real estate appraiser, a tax specialist, a public relations advisor, an "expert" on health insurance, casualty insurance, fire insurance, marine insurance, life insurance, inland marine insurance, fidelity insurance and suretyship. Not least — but GREATEST of all — she is a **human being** with an enormous talent for human relations, a facility for expressing herself concisely, a gift of welcoming responsibility and an inborn aptitude for teamwork.

A few short years ago, there were those who might have said that "such woman does not exist". But they are wrong We now have in the National Insurance Buyers Association many such women — all recognized by management as experts in their field — all recognized in their communities as women of integrity — all admired by their fellow associates as WOMEN of responsibility and talent.

It is with pride that we dedicate this issue to Mrs. Dorothy M. Astarita, American Machine & Foundry Co., Brooklyn, N. Y.; Miss Ann Auerbach, Goldblatt Bros., Chicago, Ill.; Elizabeth M. Berg, Russell-Miller Milling Co., Minneapolis, Minn.; Miss Marion L. Bower, The Davison Chemical Corp., Baltimore, Md.; Miss Margaret Chalmers, Fibreboard Products, Inc., San Francisco, Calif.; Mrs. L. M. Clore, Thomas Emery's Sons, Cincinnati, Ohio; Miss Grace Drexler, United States Plywood Corporation, New York, N. Y.; Mrs. Margaret K. Fischer, Fischer Industries, Inc., Cincinnati, Ohio; Miss Mabel Foster, The Nestle Company, Inc., White Plains, N. Y.; Miss Emma Freitag, Fred Meyer, Inc., Portland, Ore.; Mrs. M. A. Gray, Electrolux Corp., New York, N. Y.; Miss D. Hanson, Fibreboard Products, San Francisco, Calif.; Mrs. M. C. Houtz, Insurance Audit & Inspection Co., Indianapolis, Ind.; Mrs. E. Kretschmar, Federal Paper Board Co., Inc., Bogota, New Jersey; Mrs. Gladys E. McCullough, The San Francisco Bank, San Francisco, Calif.; Miss D. O. Nagorski, Inredeco, Inc., New York, N. Y.; Mrs. Frances D. Russell, Rheem Manufacturing Co., Richmond, Calif.; Miss Julia Sullivan, The General Tire & Rubber Company, Akron, Ohio; Mrs. Louise Teat, Electrolux Corp., New York, N. Y.; Miss W. E. Tolley, American Trust Company, San Francisco, Calif.; Miss Ruth Treais, Title Insurance and Trust Company, Los Angeles, Calif.; Mrs. Marguerite L. Welch, Hammond Lumber Company, Los Angeles, California.

To these women who have reached the top, may they continue to succeed. To those who have set their sights to the goal of Corporate Insurance Manager, may they take their inspiration from these ladies who pioneered a new field — a **natural** field for women executives.

COVER

Mrs. L. M. Clore whose picture graces the cover of this issue was honored by the members of the Cincinnati Chapter of NIBA last year, by being elected president. Mrs. Clore was the only member of the fair sex in the chapter at the time.

She is Manager of Insurance for Thomas Emery's Sons, Inc., owners and operators of the Netherland Plaza and Terrace Plaza Hotels, in Cincinnati and also the well known Carew Tower and other large real estate holdings.

Mrs. Clore is happily married and has two children but finds time to take an active part in many civic and charitable organizations and to head up a very active chapter of the National Insurance Buyers Association, Inc.

Buyergram

IS OUR FACE RED?

We were never very good at geography anyway, but putting the Minnesota Chapter in Wisconsin in the map on the cover of our first issue, is hardly forgiveable.

Our humble apologies to our members in Minnesota and Wisconsin. (See Letters to the Editor.)

NEW CHAPTER ORGANIZED

We are pleased to announce the election of the first set of officers of the newly organized Maryland Chapter in Baltimore.

President—T. V. Murphy,
The Maryland Drydock Company, Baltimore
Vice President—Robert M. Cone,
Mathieson Chemical Co., Baltimore
Secty-Treasurer—Miss E .C. Jacobs,
The Maryland Drydock Company, Baltimore

Plans are being made to hold monthly meeting of this new group and we extend our best wishes to the officers and members.

INSURANCE BUYERS CONFERENCE: OCTOBER 13, 14, 15

Mr. Ralph H. Wherry, head of the Department of Commerce, Pennsylvania State College, has announced that an Insurance Buyers Conference will be held on October 13, 14, 15.

The first conference held at Pennsylvania State College was last year and was co-sponsored by the College, New York Chapter and Delaware Valley Chapter, Philadelphia of NIBA and the Pittsburgh Buyers Association.

NEW OFFICERS FOR CENTRAL ILLINOIS INSURANCE MANAGERS ASSOCIATION

At the annual meeting of the Central Illinois Insurance Managers Association held on May 13, George T. Heinrich, Caterpillar Tractor Company, Peoria, Illinois, was elected President succeeding Elias W. Rolley. Elected to serve with the new President are: F. G. Sutherland, Illinois Power Company, Decatur, Vice President; A. A. Baker, Funk Bros. Seed Company, Bloomington, Secretary-Treasurer. The two new members of the Board of Directors are: John Alexander, Illinois Wesleyan University, Bloomington, and Richard Flanders, Lindsay-Schaub Newspapers, Inc., Decatur.

NATIONAL BOARD OF DIRECTORS AND CHAPTER PRESIDENTS MEET

A luncheon meeting of the Board of Directors of NIBA and Chapter Presidents was held at the Hotel Statler on May 25th at which time a review of the activities of the Association was discussed. Membership in the Association has increased substantially since the November Meeting of the Board.

Attending the meeting were B. E. Kelley, United States Plywood Corporation, N. Y., President, NIBA; Lowe H. Wiggers, The Procter & Gamble Company, Cincinnati, Ohio, 2nd Vice President, NIBA; George E. Rogers, Robert Gair Company, Inc., N. Y., Treasurer, NIBA; Regional Vice Presidents John Benson, Tennessee Gas Transmission Co., Houston, Texas; Vernon S. Gornto, Smith-Douglass Co., Norfolk, Virginia; T. V. Murphy, Maryland Drydock Co., Baltimore, Maryland; Directors J. Douglas Hanley, Pittsburgh Consolidation Coal Company, Pittsburgh, Pennsylvania; Roy L. Jacobus, Ford Motor Company, Dearborn, Michigan; Merritt C. Schwenk, Jr., Fruehauf Trailer Company, Detroit, Michigan; Frazier S. Wilson, United Air Lines, Inc., Chicago, Illinois; R. S. Bass, A. E. Staley Manufacturing Co., Decatur, Illinois; Director ex-officio Peter A. Burke, NIBA, New York, Managing Director and Secretary.

The following were guests: Thomas R. Ambler, Smith, Kline & French Laboratories, Philadelphia, Pennsylvania, President of Delaware Valley Chapter; Claude H. Rice, The Babcock and Wilcox Company, New York, N. Y., President of New York Chapter; H. E. Towner, Minnesota Mining & Mfg. Company, St. Paul, Minnesota, President of Minnesota Chapter; George H. Nelson, Fluor Corporation, Los Angeles, California, representing W. A. Miller, President of Southern California Insurance Buyers Association; Robert B. Wiltshire, The Glen L. Martin Company, Baltimore, Maryland.

A BUYERS' MARKET IN THE FIRE FIELD?

The trend in the fire insurance business is unfavorable, facing a buyers' market with declining income and rising costs, according to Hugh S. Coburn, Pacific Coast manager of the Boston & Old Colony who considered the outlook for the business in his address as president of the Board of Fire Underwriters of the Pacific at its 57th annual meeting at Santa Barbara, California.

He suggested that the member companies: adjust their thinking to a change from a sellers' to a buyers' market; intensify the sales efforts and maintain a diligent control of cost.

"Over the past ten years," said Mr. Coburn, "the demand for our product has exceeded the supply, and under this condition an attitude of complacency and listlessness has taken root in both our production and management areas. Competition now presents projects which inspire constructive thinking and which tax the ingenuity and cooperative facilities of producers, company management and advisory organizations.

"THE BUYER SEEKS THE COVERAGE MOST SUITABLE TO HIS NEED AT A PRICE WHICH MUST BE COMMENSURATE WITH THE PROTECTION AFFORDED. THE BUYER FURTHER EXPECTS THAT THE SELLER COME TO HIM AND HE WILL PROBABLY BUY ONLY FROM THAT SALESMAN WHO IS BEST INFORMED IN HIS WARES, AND WHO IS MOST WILLING TO GIVE OF HIS TIME AND ENERGY TO THE SALE."

GETTING THE MOST FOR YOUR INSURANCE DOLLAR

By

GEORGE E. ROGERS, Insurance Manager

Robert Gair Company, Inc., New York, N. Y., Member, New York Chapter, NIBA

This is a discussion of the insurance dollar. And what an important dollar it is! All you have to do is to look at the combined assets of American Insurance Companies to get an idea of its significance.

Yes! We are talking about real money. Insurance, once a cast off, relegated to a position of importance slightly behind the purchase of rubber bands and paper clips, now is receiving the attention it deserves. It is a bulwark against financial disaster and as such merits specialist treatment.

This insurance dollar is a peculiar thing. It is not one dollar, it is many. Insurance is a multi-sided affair—it has many facets. Each facet controls, or is controlled by a different dollar. I am planning to explore some of these phases with you, to show you the importance of each and how easy it is for a buyer of insurance to fall into the error of concentrating too heavily on one phase and be badly thrown by some of the others. Each must be explored individually as they are in a sense separate entities. But each is inextricably intertwined with the others and we must not let any one of them get out of perspective with the others.

The age-old question—which came first the chicken or the egg—has a close analogy to insurance. Which came first — losses or insurance? The answer is simple. If there never had been any losses, I certainly wouldn't be performing my present function of insurance buyer. And a pile of other people would be looking for other jobs.

Insurance has its original inception in the desire of merchants to be reimbursed for the cargos and vessels lost at sea. Such protection probably antedates Lloyds of London by many centuries, but Lloyds is the name which really denotes insurance history. The famed Lutine Bell has pealed forth the bad tidings of many a lost ship since the early part of the eighteenth century.

Simplicity was the keynote in the early days. The perils were easily defined and coverage was stipulated in wording so well conceived that much of it persists in today's marine insurance. Values were not subject to the wild fluctuations which are such a problem of modern times.

Governmental regulation and interference were practically non-existant. Happy days! There we had little to restrict the application of coverage except the judgment of the underwriter. And the insured was not faced with the multifarious problems that beset him today.

Changing conditions have brought us business complexities which, while not confined to insurance, certainly have added to the difficulties of providing a satisfactory program of insurance protection. Look back to the time when a man developed an idea of a product that his neighbor might want to buy. Then his methods were simple and he was faced with no great hazards of business. His principal foes were fire and the elements. He did the work himself and made his own deliveries. But look what happened when he started to expand. He needed more space, so he had to build a bigger factory. Contractors appeared on the scene, and where our friend at first needed only a simple form of liability coverage, he was faced with the need of owner's protective liability. The contractor, not able to do all the work himself, hired sub-contractors and had to face the problem of contractor's protective coverage in addition to his regular contractor's liability insurance. The building had more than one story, elevators became a necessity and elevator liability was brought into being.

Deliveries, once of rather simple proportion, became of such consequence that railroad sidings were required. These and other facilities furnished or permitted by the railroads were provided under written contracts which in many instances, handed to our manufacturer liabilities which were not his but which he was forced to assume in order to get the facilities. Hence, contractual liability coverage. And right here I would like to caution you about such clauses. The legal profession, undoubtedly in a zealous effort to keep clients out of difficulty, have gone overboard in the drafting of hold-harmless clauses which go to such extremes that many a party to a contract has suddenly found he has taken over the other party's liability completely, regardless of where negligence rests. Such assumption requires special insurance treatment and additional premium expenditure. If each would accept responsibility for his own negligent acts with out one trying to pass the buck to the other, ordinary coverage would suffice and additional premium cost would be unnecessary. So long as such clauses are in vogue we will continue to hand to insurers premium dollars which could be saved. And don't blame the insurance companies. They have no choice but to charge for coverage in proportion to the risk they take on. Just be sure your own contracts are reviewed and your insurers notified of any such contractual arrangements and your policies endorsed properly.

We can help immeasurably along this line if we protest every such vicious clause. The railroads made a great stride in the right direction when they accepted the clause developed by the National Industrial Traffic League for use in railroad siding agreements. This clause, now generally in use, says in effect that the railroad will accept responsibility for its negligence, and the other party to the contract, usually termed "the shipper" will bear responsibility for his own negligent acts, and that joint negligence will be jointly borne. How simple! And the saving in insurance premium is, in the aggregate, of considerable moment.

I could go on at length about the expansion of insurance lines to meet the increasing complexities of business. Take another look at our typical insured business man. His business soon got to the stage where he could not do everything himself. So he hired some neighbors. The result, workmen's compensation insurance to cover statutory responsibility for occupational injuries or disease suffered by his workmen.

He had to introduce machine operations to replace hand work. Thus was born our present power plant insurance to protect against financial loss caused by boiler explosion or failure of specified machinery.

Truly, for present day business there have been developed varieties of insurance and variations within those varieties until practically every hazard known to man is insurable in one fashion or other.

Insurance companies, as their coverage has been widened to meet these expanding business complexities have found it wise to go beyond the original idea of charging premiums and paying losses. They found it was good business to cut these losses down. Thus was started the great effort of loss prevention work, a field profitable both for insured and insurer. Millions of dollars are spent annually to save greater millions of losses. Here is a conservation effort of tangible worth.

No changes such as have taken place in insurance could have been made operable without a corresponding change in the understanding and training of those who sell it. They have had to keep pace with the rapid expansion of lines and have had to learn how to fit those lines to the complexities of their clients' business. It was not too long ago that insurance agents generally were not properly educated in their business. There are some woeful tales of uncollected losses due to the lack of knowledge and training on the part of insurance sellers. Here it should be noted that state licensing laws have been a great factor in correcting this condition but we must also give credit to the insurance companies who years ago were brought to the realization that they could not survive in modern business with salesmen who do not know their own wares.

It is perhaps only conjecture, but I am convinced that at least a part of the credit for better trained insurance sellers is due to the necessity of keeping up with the increasing knowledge of the insurance buyer. The sucker market used to be much

more in evidence than it is today, and thus holds for insurance as well as for any other line. Let the buyer expand his knowledge and the seller is perforce constrained to keep at least one jump ahead. Yes, the buyer is becoming educated, and he will insist on enlightened treatment from the other side of the desk.

Enough of the background of insurance protection. Let's get a closer look at this insurance dollar. I pointed out earlier that it is not one single dollar, but is many. The one which comes first to the average person's mind is the premium dollar. Those who have not made too careful a study of insurance think of the premium dollar as a necessary evil. And how wrong they are. The very theory of insurance, the spreading of risk, proves the fallacy of such thinking. The difference between solvency and utter failure may rest on that premium dollar.

I can point out more than one individual who measured the value of his insurance program on whether he collected his premium dollar back in losses. How stupid can one get?

This premium dollar is necessary. It is not an evil, it is important to you and every other person who needs to get someone to share his risk. And it is subject to some reduction in size if sound thinking is applied to it.

One of the best ways to reduce the premium dollar is another important dollar—the loss prevention dollar. I have touched briefly on this phase as practised by insurance companies. Their efforts alone cannot be wholly successful. They must have help from the insured. And I don't mean lip service. The uninitiated may pose the question, "Why should I spend money to reduce losses? What do I carry insurance for?" My answer to that is, "Get wise, son! you've got more than one good reason to spend money to stop losses." Let's look. Go back to that premium dollar. Now I am not so naive as to believe that insurance companies would be prone to give industry and business full return for their loss prevention savings if they were not forced to it by competition. A government monopoly certainly would not have such an incentive. We are fortunate that we have so far been able to keep our insurance on a competitive basis and thereby gain a measurable reduction in premium cost by our safety efforts. A manufacturer has no hesitancy in spending millions in process improvement or for savings in labor or material costs. *Let him give as much consideration to hazard reduction.* Let's see what else it will do for him besides lowering premium costs. It will enhance his reputation with insurance carriers. I am sure that the term "a poor risk" does not necessarily limit itself in your mind to the man who is slow paying his bills. Many a business concern has, through lack of sound loss prevention efforts earned that reputation, some even to the extent that their insurance is very hard to place.

Another imporant reason for loss prevention is the avoidance of business interruption. You may be properly insured and collect indemnity for the time you are shut down but is money reimbursement going to solve the problems of dissatisfied customers to whom you cannot make deliveries. And here is a very important point. There is no insurance available to pay for the loss of your dissatisfied customer to a competitor. Once he leaves you, you will have a tough time getting him back, particularly if he knows that his new source of supply practices loss prevention and will not be so likely to suspend operations as you were.

I would be remiss if I did not give credit to the greatest reason of all for loss prevention. Callousness to personal injuries and death seems to have been one of the world's worst attitudes. I sense a change. The almighty dollar seems unimportant as compared to a human life. There is no time measure of the value of a broken body or a fatherless family. The view of safety from a dollar standpoint is certainly dwarfed in comparison to the giant image invoked by compassion for the safety of our fellow man.

Let us keep this loss prevention dollar in the forefront of our thinking. The fire and accident records of the United States have aptly been termed a national disgrace. Conscientious adherence to the policy of preventing losses will redound to everyone's gain.

The dollar I am going to discuss next is a most vexing problem to those who have to do with insurance. Eavesdrop on any group of insurance men, buyers or sellers and I'll wager that within ten minutes the conversation will turn to insurable values. The larger concerns have recognized that there is a vast difference between what their books show as the value of their properties and what they are really worth when a loss occurs. Anyone who relies on book values is apt to be living in a fool's paradise. I am sure that accountants will have little difficulty in understanding the flaws of using without adjustment the values that stand in the books of account. Let's review the basic factors that go into them to show how fallacious they can be.

First, when were they originally calculated? If we built a new building ten years ago, and established on our books at the then cost value what has happened to that value? Inflation and dollar devaluation may be synonymous but you will immediately recognize that the building, new ten years ago, has increased in value because of increased costs of construction. How much? Well, the composite index we use in any Company show that the original cost has been increased 113% in 10 years. Let's take a hypothetical case. This factory cost $100,000. It has increased to a value of $213,000.

What about a building that was built so long ago that no cost values are obtainable? Our only answer there, is an appraisal. But here again if no adjustment has been made in the books, the same thing has happened. Our appraisal, accurate though it may have been twenty years ago, is useless except as a base to which to add increments of costs. I gave you a percentage increment for ten years. For twenty years the figure we use is 170%. Go back another 10 years in our hypothetical case and the building which cost $100,000 twenty years ago is now worth $270,000.

Second, what about additions after our initial building was erected? These undoubtedly are put on the books at cost but they too, start to fluctuate as soon as they are completed. And an ordinary accounting system won't reflect these fluctuations.

Third, what rate of depreciation is used. Enlightened insurance thinking has found that depreciation rates permitted by the Government for tax purposes is generally more rapid than should be used for insurance values. Further, it is allowed to go to a point of complete write-off on most books of account, even though sound value still exists.

These points, I hope, illustrate the folly of using unadjusted book values for insurance purposes. What are the answers?

First, it must be recognized that smaller concerns must exercise a much greater care in their value calculations than larger ones. The reasons are simple. The smaller concern is more apt to be subject to coinsurance than the larger one. It also is obvious that a larger spread of values makes the larger business less susceptible to a total loss than in the case in one of smaller status.

Secondly, other than for newly constructed property, an appraisal is highly important. An appraisal may come from one of several sources:

a. A regular appraisal company.

b. Insurance groups, such as the Associated Factory Manuals or the Factory Insurance Association.

c. Engineering computations on a square foot or cubic foot basis.

Third, proper methods of appreciating values must be adopted. There are at least ten good indices available for this purpose. And after adoption they must be applied religiously.

Finally depreciation must be controlled. Ask any good insurance adjuster what maximum depreciation is sustained on well maintained property and you will be surprised how low it is. I received a figure of 35% from one of the best known men in the profession.

My caution on the matter of the property value is this—set up a method which in your opinion will give you a reasonable insurable value at all times. Discuss it with your insurers. After all, they are the ones who are going to pay your loss. Get their slant on the matter and make any reasonable adjustments in methods they may suggest. And when you set the system in operation make it work on the high side. Remember, carrying insurance the high side only costs a fraction more in premium dollars and the final results may be greatly in your favor.

Now we come to a dollar which is a bit difficult to define. The "cost of insurance management" dollar may be, to a degree, nebulous. But it is there, without

any question. Large or small, any concern must realize that to insure at all costs some money. To insure wisely may cost more actual outlay, but the end results will justify extra cost of this nature.

Even in the smaller concern, someone has to accept the responsibility of handling insurance matters. In such case the cost will be represented by the proportion of the time spent by that individual, and will be relative to his earnings. Thus it is not hard to recognize that the delegation of such an important item to an employee of meager qualifications will be less costly in regular outlay than will be the case where one with real executive ability takes on the job. But the results may turn out to be perfectly horrible. The larger concerns can afford full time insurance departments. They can afford to pay for ability to handle the insurance job properly. But is this not so important a phase of business that small concerns have good reason to entrust the details to an employee with more than average mental ability—one who is able to learn the fundamentals of insurance protection and who can become qualified to analyze the hazards of his concern and arrange protection accordingly? Remember, end results are what count.

How can such an individual gain the knowledge needed for this function? First, he can make sure that he is dealing with brokers and agents of unquestioned ability and integrity. He can learn from them and he can trust them while he is learning. He should, if buying from direct dealing companies, apply the same qualifications, ability and integrity, and he will find them willing to impart their knowledge to him. He can make wise use of independent insurance advisors, particularly those who are not engaged in selling insurance.

He has another fine source of knowledge and experience available to him—his fellow buyers. Where can he meet them? Through insurance buyer organizations. The National Insurance Buyers Association, with Chapters throughout the country, is the source of available information. Here, at monthly meetings he will meet all stages of insurance knowledge, and without question he will locate someone who has solved the very problem to which he needs an answer.

And don't think these meetings are all cocktail parties. Real work is done and insurance knowledge is advanced in good measure.

At this point, I would like to look back briefly on the ground we've covered. We have reviewed four of our insurance dollars and I hope I have given you some idea of their importance. It is axiomatic that we have to spend premium dollars for insurance. We should be willing to spend reasonable amounts for proper insurance management. We must recognize that this property value dollar is one that must be given a great deal more than cursory treatment. And we cannot fail to see the benefits that will accrue if we spend money for loss prevention.

I know you would like to learn about some insurance refinements, some "gadgets" that will improve protection or will reduce the premium dollar.

In multi-location businesses, blanket insurance should be used to the greatest extent possible. It is particularly worth while where values may fluctuate, as its very basis, which eliminates specific amounts for individual locations, permits the application of any part of the total coverage to a single location at time of loss. This is extremely valuable with respect to business interruption insurance, or use and occupancy, especially where some of the locations are interdependent.

Automatic coverage in certain lines is important. Fleet coverage on motor vehicles should pick up new units automatically subject only to subsequent reporting, say at the end of a policy year. Certain types of power units under boiler and machinery coverage should be insured automatically. The value of automatic coverage obviously lies in the fact that claim for damages to or resulting from the units included under its scope will be covered whether or not the units have been specifically included, provided the policy requirements have otherwise been met.

All risk coverages, whenever obtainable will work for greater security than is obtainable from specific hazards. All risk is, of course, not strictly as complete in scope as the name implies. There are almost always exceptions, but these are usually of minor consequence. All risk covers are generally well applied to merchandise transportation risks, crime hazards including fidelity, under comprehensive dishonesty, disappearance and destruction policies, and certain types of floater insurance.

Higher limits of liability coverage are highly recommended. It is mighty hard to meet a $100,000 judgment with a $10,000 policy limit.

One thing should not be overlooked. The widening of scope of insurance coverage will generally call for increased premium outlay. Most everyone wants to reduce that premium dollar. The one way *not* to do it is to discontinue insurance protection that is vital. But every business should carefully consider the possibility of carrying a part of its own risk through deductibles. Any insured can measure his own ability to absorb the impact of losses and he should be willing to so insure. In addition to saving on his premium dollar it will add incentive for the best use of this loss prevention dollar.

Self insurance as a way of premium savings should not be blindly accepted. Here a careful analysis is needed to determine the business's ability to withstand the shock of a major loss. Size of risk and its spread are important factors, and control of hazards is vital. Don't ever kid yourselves that self insurance is all beer and skittles. It may save money—it may not. It involves the careful establishment and maintenance of cash reserves that cannot be tapped for other business emergencies. It involves intensified loss prevention activity and it also entails establishment of means to settle losses, perhaps under legal guidance. These things cost money. So there is a premium dollar in self insurance as well as in regular insurance.

Self assumption is another way of not insuring. It is merely the acceptance of the fact that a hazard exists and a deliberate decision not to insure. Here no reserve is set up and losses are paid out of operating expense. Unless the hazard is without question one which can be absorbed in this fashion, self assumption is an extremely dangerous method of saving on the premium dollar.

Mark Twain said something that may well be used to illustrate this problem. He said "There are two times when a man should not speculate—when he can't afford it—and when he can." Putting this to our own use—if there is any speculation involved, don't do it.

We have explained four dollars pretty carfully. But a five dollar bill has another dollar. We could play around with these other dollars and easily lose sight of the most important dollar of all. The loss or claim dollar. If these are not the same dollar, something has slipped. The one aim we should have with our other dollars is that they shall be so applied that our losses are settled in full. It is extremely embarrassing to have to report to management that a loss costing X dollars is going to be settled on a basis of X—Y. I am not pointing this at minor losses. I'm looking at the big ones. They are the ones that, improperly treated might be the difference between failure and solvency.

So here is our final dollar. Our protection, properly designed will give us assurance that our claims will cover our losses or that if any differences exist, they will have been anticipated.

Finally I am going to stop. But no paper can come to a conclusion without a brief summing up.

These facts I have tried to bring out:

1. That we must spend money for the elimination or reduction of hazards. This is incontestible.
2. That money in the form of time must be spent in the administration of a sound insurance program.
3. That a sound program, developed through conscientious loss prevention and careful analysis of values and hazards *may save* premium dollars, but most important, it will provide reasonable certainty that businesses will be able to survive catastrophic accidents.

I have previously mentioned the need to deal with brokers and agents of high integrity. You understand that an insurance policy is a bilateral contract. One cannot expect to receive honest treatment if honesty is not evidenced on both sides. If we enter into insurance dealings with honesty of intent, and reasonable care and intelligence, we have a mighty good chance of getting the most from our insurance dollar.

MAJOR MEDICAL EXPENSE INSURANCE, HOW IT WORKS

A great deal has been said and written during the past several years about MAJOR MEDICAL EXPENSE INSURANCE. Most of that which has been said and written was pointed at the methods proposed or adopted by the respective insurance companies who are offering this form of coverage.

It is the purpose of his paper to present the point of view and experience of a buyer of insurance and administrator of a comprehensive insurance program covering more than 3,500 families, spread over thirty states, with fairly large concentrations in the cities of New York and Los Angeles, and with income levels from a low of $2,500 annually to a high in excess of $50,000 annually. The type of people included are both white collar and labor, skilled and unskilled, and each group is made up of varying ages. In short, a good cross-section of American people in an income level to some degree higher than the national average income level.

This group is representative of that large part of the American population who are daily fearful of what a sudden, major illness or accident to a member of their family with its attendant major medical costs, will do to their financial solvency. It is for these people that provisions must be made to protect them against the exigencies of such catastrophic medical expense.

The latest reports issued by various agencies show that approximately 90,000,000 Americans are presently covered by some sort of hospitalization insurance and about 70,000,000 Americans by some sort of a surgical reimbursement plan. In my Company about 90% to 95% of our employees voluntarily subscribe to a plan providing such benefits. Yet every so often, and it might crop up in any part of the country, in any division of the Company, at most any income level—we found one of our employees—because of sudden illness or accident within his family, on the verge of bankruptcy or at best ready to hock the future of his children to meet the cost of the emergency. Very frequently, we, as the employer, either directly or through some sort of a welfare fund agreement had to perform an act of charity and come to the rescue, or even worse, have the hat passed around. We came to the conclusion that we, as well as most employers providing the usual type of hospitalization and surgical benefit plans have deluded our employees into a false sense of security — that we only have scratched the surface of providing protection and that these employees and their families were still wide open to the financial knock-out punch caused by such emergencies.

We started out by outlining all possible areas of medical costs and then tried to fit them ino the picture. We examined these costs in the light of:—

1. Their effect on the financial stability of and the ability to pay by the average family.

2. What forms of insurance protection are already available and whether such forms of protection are adequate to meet the needs of the public in the light of the development of modern medical practice, and

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3. What controls and underwriting fences must be established so that the provision of coverage for major expense may be placed and kept on a sound basis and at a reasonable cost.

The following are the major items of medical cost which are commonly encountered:

1. Hospital room and board.

2. Additional hospital charges for services rendered other than room and board such as operating room, anesthesia, X-ray and laboratory examination, drugs and medications, etc.

3. Surgical fees (in or out of hospital).

4. Medical fees (in or out of hospital).

5. Registered nursing fees (in or out of hospital).

6. Services and supplies outside of hospital such as rental of iron lungs and other mechanical equipment, hospital type beds, oxygen and rental of equipment for its administration, X-rays and laboratory examinations and other therapeutic services and supplies.

7. Drugs and medicines.

With the foregoing basic principles in mind, let us proceed with the discussion of each of the elements which make up MAJOR MEDICAL EXPENSE INSURANCE and in such discussion we will evolve some new principles that we believe are "musts" in setting up such protection.

1. and 2. Hospital room and board charges for additional services other than room and board.

An examinaion of hospital room and board charges across the country indicated that the average room and board charge for semi-private facilities was in the neighborhood of $15 to $16 per day. We also found that private facilities were available, particularly in the larger cities, at varying rates up to $60 per day for deluxe suites. This enormous gap in cost of hospital facilities from $15 per day to $60 per day highlighted one of the basic questions that must be answered and which should be faced to a greater or lesser degree in each of the areas of medical cost; namely, can we set-up a plan that would permit the selection of $60 per day facilities and have such selection and consequent cost paid for by the major medical expense plan. Obviously, we came to the conclusion that there was no way in which the $60 per day facility could be insured. There was no sociological, economic or medical reason to provide insurance for any room and board facilities beyond those which the person in an income bracket of less than $10,000 annually would normally use if he were paying the entire bill himself. We, therefore, decided to change our existing hospitalization plan to a $12 per day room and board benefit. We extended the period of coverage from 31 days to 180 days, and after careful study we were convinced that in more than 98% of the hospitalized cases such a period of coverage was adequate to meet any catastrophic contingency or medical requirement.

In the area of hospital charges for services other than room and board which include operating room, anesthesia, X-ray and laboratory examination, drugs and medications, etc., we felt that the patient was not in a position to make any selection whatever as to type, quantity, frequency or cost of the services listed above, and that the cost for such services in a large measure were standard as to a particular hospital, and would not to any material extent be influenced by the presence or absence of insurance protection to pay for such costs.

We, therefore, after careful examination of a large cross-section of hospital cases came to the conclusion that an allowance of $1,000 for case room fees in any one hospital confinement was tantamount to an unlimited benefit for such costs, and in the great preponderance of cases was adequate. We, therefore, adjusted our existing hospitalization plan to provide $1,000 benefit for case room fees for each disability.

WE THEN EXCLUDED FROM THE "MAJOR MEDICAL EXPENSE PLAN" ALL HOSPITAL CHARGES, SINCE SUCH CHARGES WERE ADEQUATELY TAKEN CARE OF ON A CATASTROPHIC BASIS UNDER THE EXISTING ADJUSTED HOSPITALIZATION PLAN.

3. Surgical fees (in and out of hospital).

This was the most crucial area of medical expense and one which has seriously troubled all underwriters in the field of health insurance. Here was an element of cost that had no standards, which could vary, for the same service, from a charge from $100 to $2,000 or more; that was predicated in a very large measure, not upon the type of service rendered but most usually upon the patient's ability to pay and his available financial resources. How could one determine how much an appendectomy was worth? Was it worth as much for a person earning $5,000 a year as for a person earning $15,000 per year? Unfortunately, there is no fixed pattern or standard and there is no way to apply a mathematical formula.

Excepting for a few types of surgery, particularly in the area of fractures where definition is difficult, we found that to a large degree the benefits provided in what is commonly known as the "$300 Surgical Benefit Schedule" paid for between 65% and 75% of the surgical bills. This survey also disclosed that in a majority of surgical cases, the surgeon geared his fee to the benefit provided under the insurance schedule. Recognizing this indicated practice, and with tongue in cheek, we increased our schedule to a $350 maximum benefit .The purpose of this change was to attempt to bring the schedule up to the level of 75% of the average bill.

WE THEN EXCLUDED ALL SURGICAL FEES FROM OUR MAJOR MEDICAL PLAN, AND THUS ELIMINATED ONE OF THE GREATEST DANGERS TO THE SOLVENCY OF THE PLAN.

We are convinced that in keeping surgical benefits on the scheduled basis, we were not prejudicing the position of the insured person nor were we in a great preponderance of cases failing to provide the adequate and needed protection. Our experience in the operation of our plan has proven this conclusion sound.

After having discussed in detail and disposed of the two areas of medical expense which have created underwriting uncertainties and which were subject to abuse and the consequent unsoundness and insolvency of the entire plan, we would like to present an outline of what we consider an ideal major medical expense plan. It should reimburse for regular and customary charges resulting from any non-compensable injury or disease (excluding pregnancy) for:

1. Medical treatment by a legally qualified physician—in or out of the hospital.

2. Private duty nursing by a registered graduate nurse in or out of the hospital.

3. For services and supplies when not confined in a hospital such as: rental of iron lung or other mechanical equipment, rental of hospital type bed, oxygen and rental of equipment for the administration of oxygen, prosthetics, braces, crutches, X-ray examination (other than dental X-rays), anesthetics and the administration thereof, and/or therapeutic services and supplies.

This plan should provide for the payment of the charges enumerated above to the extent of 75% of such charges after providing for a deductible of $100; with a total aggregate limit for each assured in the amount of $5,000.

Let us examine these three categories of medical expense which are the essence of the problem and for which little or no provision had been made in the past.

1. Medical fees (in and out of hospital).

The growth of medical expense reimbursement protection during the past few years has more or less kept pace with the expansion in the field of hospitalization and surgical benefits. The Health Insurance Council reports that at the end of 1951 about 28,000,000 people were covered by some sort of medical expense plan, most of them of the service type. From the available statistics 50% of these covered have protection under the insured benefit plans which generally provide a fixed reimbursement. While the lower income groups nationally have come within the scope of the service type plans, since most of these limited participation to low income groups (under $3,000 annually), the great majority of the American people were completely without any form of protection against the great raider of family security—the doctor's bills in a major illness, either at home or at the hospital.

Under the major medical expense plan outlined, we are not concerned with the number of visits but rather with the cost thereof. After a great deal of study, we found that we did not have any of the misgivings that some underwriters and carriers had that this item of cost would get out of control and be subject to abuse. We found that within the framework of the deductible and co-insurance factors, medical costs would be usual and would not be unduly inflated because of the availability of a substantial insurance benefit. In most areas of the country doctors fees either in the home, hospital or office are fairly well known and standardized. The fees for consultation services could be fairly well established. We, therefore, reached the conclusion that it was socially, economically and, from an insurance underwriting point of view, sound and desirable to provide coverage for all medical bills regardless of where incurred and without consideration to the number of visits involved, subject to the co-insurance and deductible provisions of the plan. We have become convinced that the provision of coverage for such expenditures filled a great void in the area of protection for the American family against the ever present danger to their financial stability that might be brought on by serious and major illness or injury.

2. Registered nursing fees (in and out of hospital).

Examination of hundreds of claims, particularly those for hospital care, indicated a woeful lack of coverage in the realm of expenditures for nursing services. The study of the cases showed conclusively that this item of expenditure could be far more costly than hospital room and board charges. We believe that the co-insurance factor will be to a large extent eliminate any possible abuse of this benefit and that the operation of the law of supply and demand of nurses will eliminate any tendency on the part of the assured to avail himself of such services because of the insurance benefit, whether needed or not.

3. Services and supplies listed in the outline of the plan while not in a hospital. This item does not require much discussion since its inclusion within the concept of a "Major Medical Expense Reimbursement Plan" is obvious.

4. Drugs and medicines.

In setting up our plan a great deal of thought was given to the question of whether or not expenditures for drugs and medicines, even though limited to those which are prescribed by the physician should be included. We came to the considered conclusion that such expenditures *did not* properly come within the definition of catastrophic or major medical expense, and therefore should be excluded from the coverage. We decided that we did not intend or want to pick-up the minor expenditures of from $1 to $5 for prescriptions, and that the assumption of these minor costs by the assured would not be any burden upon him.

The problem of setting up a proper deductible received a great deal of attention. This phase of the plan was not examined from the point of view and with the intent of reducing the sum total of the amount of the claims to be paid. We concluded that its sole purpose should be to eliminate from coverage the every day, usual medical expense which should not be the subject of insurance. We also concluded that it should not be more than $100 for each disability as defined under the plan, because any greater amount would in effect unduly and improperly reduce the area of protection to a point where it might work hardship on those insureds in low or medium income groups.

The concept of co-insurance has been accepted by all who have given any study or thought to the planning of this type of insurance. All have agreed that the establishment of a partnership between the assured and the carrier is essential to the stability and success of the plan.

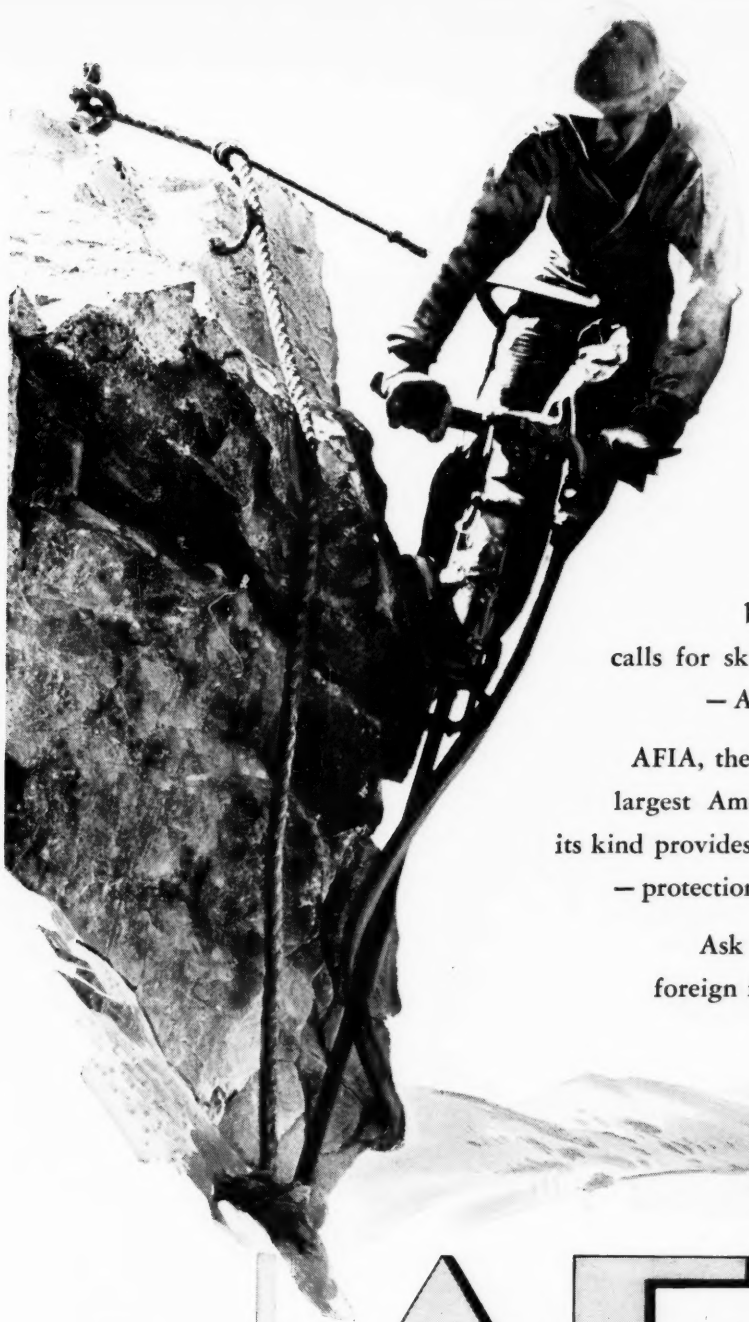
That is how MAJOR MEDICAL EXPENSE INSURANCE works. I am happy to report that after fourteen months of operation it has worked—it has done in every respect the job that we intended it to do, at a reasonable cost. We have not encountered any of the pitfalls that so many of the underwriting or actuarial fraternities were afraid we were inviting. As far as we are concerned—and by we, I refer to my Company and to John Hancock Mutual Life Insurance Company, our carrier, sound major medical insurance is no longer an experiment but a successful reality.

In conclusion, may I say that the provision of adequate protection against financial devastation resulting from a major illness or injury presents a serious challenge to management, labor, the medical profession, and to the insurance industry.

To management I must say, that either on its own initiative or if its labor relations require cooperative effort with organized labor, it must move forward and meet this growing and inevitable challenge. If it fails, government will inevitably move in and take over in this area at great financial cost and at a tragic set back to the principals of free enterprise and self-protection.

To the medical profession, I must say that the dreaded threat of socialized medicine can be averted only by its cooperation in avoiding and eliminating abuses on its part, so that the established major medical expense plans may exist to serve the American people with dignity and in a solvent manner.

To the insurance companies, I must say in the vernacular, "Get the lead out of your pants". Time is running out on you. You can not forever keep playing it safe. Unless you take the initiative; unless you use the imagination that made it possible for you to build the great empire that you are, and provide the vehicle for the establishment of adequate insurance protection plans on a competitive basis of free enterprise, your government will step in and take over this field of medical expense insurance. Whether we like it or not — whether we think it possible or not from an underwriting point of view — whether we care or do not care whether the American standard of living and medical care is kept at its highest level—of one thing we can be sure, MAJOR MEDICAL EXPENSE INSURANCE in one form or another is here to stay.



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In setting up our plan a great deal of thought was given to the question of whether or not expenditures for drugs and medicines, even though limited to those which are prescribed by the physician should be included. We came to the considered conclusion that such expenditures *did not* properly come within the definition of catastrophic or major medical expense, and therefore should be excluded from the coverage. We decided that we did not intend or want to pick-up the minor expenditures of from $1 to $5 for prescriptions, and that the assumption of these minor costs by the assured would not be any burden upon him.

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The concept of co-insurance has been accepted by all who have given any study or thought to the planning of this type of insurance. All have agreed that the establishment of a partnership between the assured and the carrier is essential to the stability and success of the plan.

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To management I must say, that either on its own initiative or if its labor relations require cooperative effort with organized labor, it must move forward and meet this growing and inevitable challenge. If it fails, government will inevitably move in and take over in this area at great financial cost and at a tragic set back to the principals of free enterprise and self-protection.

To the medical profession, I must say that the dreaded threat of socialized medicine can be averted only by its cooperation in avoiding and eliminating abuses on its part, so that the established major medical expense plans may exist to serve the American people with dignity and in a solvent manner.

To the insurance companies, I must say in the vernacular, "Get the lead out of your pants". Time is running out on you. You can not forever keep playing it safe. Unless you take the initiative; unless you use the imagination that made it possible for you to build the great empire that you are, and provide the vehicle for the establishment of adequate insurance protection plans on a competitive basis of free enterprise, your government will step in and take over this field of medical expense insurance. Whether we like it or not — whether we think it possible or not from an underwriting point of view — whether we care or do not care whether the American standard of living and medical care is kept at its highest level—of one thing we can be sure, MAJOR MEDICAL EXPENSE INSURANCE in one form or another is here to stay.

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RATES, RETENTIONS, AND RESERVES

At the outset I want to say that I do not propose to describe any of the employee perquisite plans of my company, or to hold up to you the methods followed by the Insurance Department of Standard Oil Company, as plans and procedures to serve as models for your adoption.

I intend this to be a discussion of fundamentals only. It is my avowed purpose to encourage all insurance buyers, managers, administrators or whatever is the latest and most acceptable job description presently employed by our national organization, to acquaint themselves with the fundamentals involved in the writing of these coverages, so that we can analyze the specific needs of the organization we represent—

in the light of a changing economy,
in the light of competition with respect to employee perquisites within our respective industries,
in the light of recent changes in labor legislation, and
in the light of mortality improvements;

so that we can keep our respective managements currently advised not only of the present costs of the employee group plans operative in our own companies but the cost of proposed improvements or betterments in such plans by the unions, in order that the financial representatives of our companies may make adequate provisions for the funding of such plans; and so that we may deal realistically with the insurance carriers who provide such coverages for us, or with the financial institutions who serve as financial agents in those instances where such group coverages are financed through trust funds.

Time will not permit a detailed discussion of all of the aspects involved in the development of employee group plans, their placement, and their financing.

Therefore, I have chosen to discuss what I regard to be three of the most important items with which we should concern ourselves in the development, placement, administration, and funding of such employee group plans—*rates*, *retentions* and *reserves* as they apply to the three basic group coverages: LIFE insurance, HOSPITALIZATION insurance, and PENSIONS.

Life Insurance

When we talk about rates in regard to life insurance most of us probably understand the term to mean gross premium rates. These rates are based upon assumptions made with respect to only three factors. They are, mortality, interest and expenses.

A mortality table is merely the result of an application of the laws of probability to certain select vital statistics. The two tables that you are most likely to see referred to in your group insurance contract are the American Men Table and the Commissioners Standard Ordinary Table, usually called the C.S.O. Table. Its effect, insofar as group insurance rates are concerned, is to indicate on the average the number of people who will die at each age during a given year.

The second factor used by the actuary in computing gross premium rates is interest. This is not a very important factor in the case of Group Yearly Renewable Term insurance, since the reserves held by the insurance company are relatively small.

The third item, expense, covers quite a bit of territory, as you might suspect. The insurance company must collect enough from you to defray the costs of the following expenses, among others: agent's commissions, premium taxes, your share of investment expenses and all other expenses included in its overhead.

If you have Group Yearly Renewable Term insurance, you have probably already run into the average premium rate problem. As you no doubt know, this problem entails a very simple calculation; all you do is take the amount of insurance in force at each age and multiply by the premium rate in your contract for the appropriate age. Add up these premiums and divide the total by the total number of thousands of life insurance in force; the result is your average premium rate for the coming year.

If you have, or have had, good experience under your contract, you may well ask for and receive a rate reduction from the insurance company. Usually, the company will use the gross premium rates appearing in the contract, then reduce them by a fixed percentage. Thus the average annual premium rate per $1,000 of insurance will be reduced from $10 to $8 if a 20% reduction from the gross rates is allowed.

I might say here that it apparently makes very little difference whether you buy your insurance from a Mutual company or a Stock company. The Mutual company will allow you a dividend at the end of the year, if one is justified, and the Stock company will allow you a rate reduction return, if justified. In either event, the actuary will consider the same factors and probably arrive at the same size cash return to you. Roughly speaking, the amount of the dividend or rate reduction return will be a percentage of the surplus earned; surplus in this case being premiums minus claims and expenses. The Stock company expects to make a profit and the Mutual company expects a contribution toward its free surplus. Unless the insurance company loses money on your contract, you are going to pay one or the other of these two items, depending upon where you place the coverage.

C. HENRY AUSTIN
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Retention is just a fancy word for the money that the insurance company keeps after it pays your claims and returns your dividend or retroactive rate reduction. No doubt you have already figured it by subtracting the amounts paid out in claims and the amount of your dividend return from the amount paid to the insurance company during the year. Retention is usually expressed as a percentage of premiums paid. Your idea is to keep this figure as low as possible. During the first year or two of a new contract, this figure is apt to be most anything; 15% or more would probably not be too uncommon (the insurance company is busy writing off "acquisition" costs during this time). After the first or second year, you can reasonably expect it to decrease sharply.

If you think the retention under your contract is too high and decide to talk it over with your insurance broker and carrier, they are apt to start talking about "credibility", among other things. The credibility factor is something the insurance company considers at the time they compute your dividend or rate reduction return. For all practical purposes, it means that the return on a very large group will be a large percentage of the surplus accrued under the contract during the year. Under a small group, this percentage would be low. This difference is accounted for by one of the basic principles of insurance, namely, spread of the risk. In other words, a policy under which 50,000 lives are insured is more apt to experience the normal or expected mortality more closely year after year than a policy under which 50 lives are insured. You can readily see that the small policyholder might well go along for a period of several years without a claim and then have only one or two claims, the sum of which might well exceed the premium that he has paid for the insurance on the whole group.

This brings us to the subject of reserves. Reserves are money that the insurance company keeps from the premiums that you and other policyholders pay so that they can be sure of their ability to pay off all claims in a given year even if you and many other of their policyholders have a bad year claimwise. They would normally keep a larger percentage of the premiums

paid for reserve purposes under a small contract than under a large one because of the credibility factor. They will always have reserves for unreported claims and for due and unpaid claims; in addition they may well maintain a contingency reserve or reserves.

The contingency reserve is used to offset extreme fluctuations in mortality experience. Part of the money in this reserve may well have come from extra premiums that you have paid; the rest will be taken out of money that would have otherwise come back to you in the form of dividends or retroactive rate reductions.

Insofar as choosing a carrier is concerned, it would seem that our problem is to choose a company that has low mortality among its group insurance policyholders, earns a very high rate of return on its investments and has very low expenses. If you can do this, you are well on your way to becoming a very successful insurance buyer.

Hospitalization Insurance

There are two major types of insurance in the hospitalization insurance field, as you know. There are the Blue Cross or Blue Shield plans that guarantee services, and there are the insurance company plans which offer benefits on a cash indemnity basis. There is naturally some overlap in this case, since two insurance companies recently underwrote service type plans for certain meat packing companies, and Blue Cross plans provide benefits on a cash indemnity basis for subscribers who are hospitalized outside the area serviced by its subscribers' home organization.

Under Blue Cross or Blue Shield plans the organization states a rate that it hopes will be adequate to provide the guaranteed benefits. If the rates prove inadequate they can and do raise them, or they eliminate some of the services that they guarantee to furnish. If the rates are inadequate and the fund runs almost dry before they have an opportunity to increase rates or decrease services, they can pay the participating hospitals on a pro-rata basis. This happens occasionally under some plans, and the hospitals don't like it; it is always possible that some of the larger and better established hospitals will withdraw from participation should this condition continue for an extended period of time. Needless to say, if the rates prove to be more than adequate in succeeding periods, the hospitals are reimbursed at a later date for the bills that they have foregone partial collection of in the past. This is their way of meeting a financial emergency.

The insurance company cannot get out of its troubles, if any, quite so easily, since they must pay the guaranteed benefits at the time they become due. The bill stands against the insurance company's entire assets just as any other legitimate claim does. Usually they are forced to wait until the succeeding policy anniversary to increase their rates. For this reason you can see why they like to get plenty of premium in the first place and maintain reserves under this type of coverage.

Frankly, I cannot tell you exactly how any company sets its rates. They will use morbidity tables. As we mentioned in discussing group life insurance costs, the laws of probability are applied to selected statistics to obtain a mortality table. A morbidity table is different; it is for the most part just statistics. Here the casualty actuary enters the picture. He takes some figures concerning the incidence, duration and amount of claims and comes up with a so-called pure premium; then he adds on a loading for expenses. After the actuary has made this very difficult calculation, the proposed premium is presented to some higher-up in the company who checks the rates charged by the competition and raises or lowers this figure accordingly if he figures this line of business can be written at all profitably, or at least without loss.

We have already talked about the difference between a participating and a nonparticipating group life insurance contract. Insofar as the comparison is applicable to Group Yearly Renewable Term insurance, the same statements apply here for all practical purposes.

Blue Cross and Blue Shield organizations are non-profit; in general their contracts might be compared to a participating contract. As far as I know though, you will not receive any cash dividends. Instead, if the plans' reserves grow too large, it is more customary to increase the benefits provided and pay out this excess surplus almost as fast as it appears. I suppose that rate reductions are used from time to time without a corresponding decrease in benefits whenever this happy situation occurs. It would be possible to give a relatively long list of statistics concerning the experience and degree of solvency of various Blue Cross plans, but such statistics can be found in various publications and services that you probably have in your offices. Under Blue Cross plans only one type of risk is covered, and you do not have an insurance company's gross surplus or capital and surplus to fall back on if the business goes bad. The National Association of Insurance Commissioners are apparently agreed that a surplus ratio of four months incurred claims is an acceptable minimum. Apparently some of these plans have had some trouble in setting aside and maintaining adequate reserves for deferred maternity benefits. If you are considering the adoption of a Blue Cross plan, I suggest that you check carefully this solvency feature with respect to the plan or plans that you are considering.

With respect to net cost, the same things that were said when we talked about group life insurance are almost 100% applicable here. Perhaps, though, we should say a little more about the reserve problem under a hospital plan. For the most part, a hospitalization insurance plan postulates more of a continuing liability than exists under a group term plan, unless the latter contains a disability benefit. The insurance company knows that, under certain circumstances, it must continue paying benefits to persons already hospitalized on the date of discontinuance of your contract, and they are faced with the problem of paying maternity claims which may arise in the next nine or ten months. The insurance company wants to make very sure that it has enough money on hand to meet any claims that it might have to pay under your contract in the event that it is discontinued. They will accomplish this purpose by setting up a very large open and unreported claims reserve if possible. The company may even maintain a special maternity reserve.

Catastrophe or extended or major medical expense insurance is the latest addition to the group insurance field. For the most part there have been very few of these plans, and they have been in force for only a very short time. The analytical statistics available are very rudimentary in nature and I know of no analyses that claim to be final or even adequate.

Since this is a very new type of coverage, the insurance companies have not finally decided what reserves should be set up in order not to lose money. The companies are quite properly acting with extreme caution; as a result the gross premiums are high and the amounts withheld for reserves may be large for quite a few years. This means that your dividend or rate reduction return will be low, even if your experience is very fine. You might be able to persuade your carrier to guarantee to return a certain large percentage of such reserves, if they should be found to be excessive in later years. If you continue the contract for a long time, such returns should flow back to you via the dividend or rate reduction return routes. If the contract is discontinued after a few years, you would probably receive a lump sum at a later date.

Pensions

Time does not permit our discussing the chosen subject matter with respect to all of the various ways of funding pension plans. Your plan can be trusteed or insured or both. Let's stick to trusts, group annuities and deposit administration types, since they seem to be the most popular.

Under a group annuity contract, a deferred annuity is purchased each year from an insurance company at a fixed premium rate and the performance of the insurance company in regard to its obligations on each annuity is fully guaranteed on and after the date of purchase by the complete assets of the insurance company.

Under a trust fund, actuarially calculated amounts are deposited each year in a trust and all benefits are paid out of the fund, but the trustees never guarantee at any time that there will be sufficient money on hand to pay the benefits currently due.

A deposit administration contract is a hybrid; in some respects it resembles a trust fund and in others a group annuity contract. Under such a contract, amounts may be deposited periodically throughout the life of the contract; such amounts are usually computed actuarially in much the same manner in which deposits to a trust fund are calculated. No annuity is purchased until the employee actually retires, yet the annuity premium rate with respect to the annuities ultimately to be purchased with a particular deposit is guaranteed at the time a deposit is made. In addition, the

minimum rate of interest for any particular deposit is guaranteed until that money is applied to the purchase of an annuity. The integrity, but not the adequacy, of the fund is guaranteed by the insurance company.

With respect to rates, we will have to differentiate between the gross premiums applicable under a group annuity or deposit administration contract and the deposits to a trust fund or a deposit administration fund. Deposits to a fund are made on the basis of actuarial calculations, and the amounts computed are supposed to be sufficient to meet the pension liabilities incurred on the dates that pension benefits become due. Gross premiums are amounts paid to an insurance company in order to induce the company to pay the pension benefits on the dates that they will become due. In other words, the insurance company takes your place as the guarantor of the pension benefits to be paid to a third party, namely, the retired employee. The insurance company's position in this respect is analogous to the position assumed by your casualty insurance carrier with respect to claims arising under your public liability policy.

It is almost impossible to talk about pension plan rates without describing and discussing the various basic factors that may be considered in computing your pension liability and ultimately the amount of the deposits for premiums that you must pay. The following five are the most commonly considered. They are—

mortality,
interest,
expense,
turnover, and
future changes in salary levels.

Mortality, interest and expense are the only three factors considered by the insurance company in calculating its group annuity premium rates. Since the insurance company's performance under the annuity purchases currently being made is guaranteed for many years in advance—perhaps 70 or 80 in some instances—it will readily be seen that the insurance company tends to be very conservative in the handling of these factors. This force impels the insurance company to assume relatively low rates of mortality and interest and relatively high rates of expense. (Competition may force them the other way.)

Mortality

Mortality must ultimately be taken into consideration under all methods of funding pension plans. It will be anticipated in computing the cost of a retirement plan by the use of a mortality table. The 1937 Standard Annuity Table is probably still the one most comonly used, but other more modern tables are available.

In discussing mortality we run into the expression "discount for mortality". In the normal course of events, some employees will die before reaching retirement age; the actuary may estimate, using a mortality table, the number of these employees, and contributions to the fund may be made on the number of employees expected to live to retirement age. We can call this advance discounting for the effects of mortality.

A group annuity premium is discounted in advance for mortality. Also, you would certainly discount for mortality in advance in considering the deposits made to your deposit administration or trust fund. In the latter two cases you may choose your own mortality table; in the case of a group annuity, the insurance company picks the table.

The important point to note here is that mortality gains and losses are felt immediately under the deposit administration and trust fund methods. In other words, if more deaths actually occur in a year than were anticipated, the employer just applies this excess paid the year before against the next deposit. But, if there are fewer deaths than were anticipated, he must pay this deficit with his next deposit; this well hidden deficit shows only by having to make additional deposits for employees who should be dead.

Under a group annuity contract the insurance company figures pre-retirement mortality in the total mortality picture. Gains, if any, ultimately find their way into a dividend, but the contract is such a long-range affair and the insurance company's performance guarantees are so complete that the company normally doesn't allow much return on these gains for many years. In the early years of a contract, the reserves held for a straight life annuity are, for all practical purposes, confiscated at the time of an employee's death. Of course, if mortality losses to the fund continue for many years, the insurance company must ultimately stand them unless it is able to recoup such losses from interest and expense gains.

Post-retirement mortality has the same effect under either a group annuity contract or a deposit administration contract. The effects are the same as those just mentioned with respect to pre-retirement mortality under group annuity contract. Under a trust fund, post-retirement mortality is treated just like pre-retirement mortality. If the annuitant dies shortly after his retirement, the excess monies that you have furnished to pay his annuity are immediately released and will serve to reduce the next deposit to the trust.

Interest

Interest is primarily an investment problem, complicated under insured contracts by the minimum rates guaranteed by the insurance company. Under an insured contract there are two interest rates to consider, namely, the guaranteed rate and the rate actually paid or allowed (if more). If the insurance company earns a higher rate of interest in any one year than that guaranteed, they may credit excess interest to the fund held under the contract.

In the case of an annuity purchased under a group annuity contract, the minimum rate of interest is guaranteed from the time of purchase to the date of the employee's death. This may be and usually is a very long period of time. Since the actuary's crystal ball is just as cloudy as yours or mine with respect to economic conditions that far in advance, he must be very conservative in setting a guaranteed rate.

Under a deposit administration contract, the insurance company usually reserves the right to change the guaranteed rate of interest every five years, or perhaps more frequently. The employer's money in the fund operates on a "first in—first out" basis so no particular deposit remains in the fund for more than a few years. Since this period of time is not so long, the insurance company will usually guarantee a slightly higher rate of interest than it might under a conventional group annuity contract.

Under present conditions, the guaranteed rates of interest are so low that detailed discussions of them are largely academic. In other words, excess interest applied to the fund may be held under your contract for many years in the future. Perhaps it should be pointed out that the insurance company can use excess interest earnings to offset mortality losses, if any, sustained under annuities purchased under the contract.

There is no guaranteed rate of interest in a trust fund arrangement; the rate of interest credited is the net rate earned by the assets of the particular trust fund. Your company will receive the full and immediate effect of excess interest earned or capital gains taken. This is done by reducing the next succeeding deposit. The effects of inadequate return or capital loss are felt just as quickly, of course.

Under an insured plan your fund's share of the insurance company's excess interest earnings and capital gains will be considered in the dividend calculations, but significant shares will be set aside in various reserves so that the effect of such transactions is seldom full and immediate. On the other hand, net interest losses (below the guaranteed rate) and capital losses (insofar as your fund is concerned) can be sustained, barring failure of the insurance company.

Expense

Under an insured plan, there are three types of expenses to be considered. They are:

1. Commissions paid to agents or brokers.
2. State premium taxes.
3. Administrative expenses which cover a wide variety of handling costs.

Direct trust fund expenses are limited largely to trustee's fees and administrative expenses. There are usually other expenses that may be footed directly by the employer.

Expenses can be funded in advance under insured contracts. An expense loading in the 5% to 8% range is built into all group annuity premiums so that expenses must be funded accordingly.

Deposits made under a deposit administration contract usually contain an allowance for expenses although this feature is not mandatory if there is sufficient employer money in the fund at all times to cover the current expenses incurred. When an annuity is purchased for an employee on his retirement date, the usual 5% to 8% expense loading will be found in the premium charged.

Under Bureau of Internal Revenue regulations it is generally not possible to in-

clude in your funding method an element for the expenses incurred under the operation of a trust fund. To do so would have the effect of advance funding of expenses which in the normal operations of the trust fund are paid as and when incurred.

With respect to actual expenses incurred under the contract, probably the only appreciable tax items paid in connection with annuities, but not in connection with trusts, are a state premium tax and the carrier's corporate income tax. Since many states do not tax annuity premiums at all, this item will probably be very small (the insurance company may pro-rate such a tax over all its group annuity business). Such actual expenses are amounts paid toward expenses less the portions of any dividends received attributable to savings on the expense factor.

Under a contributory group annuity contract the necessity for keeping complete and meticulous records of each employee's equity, annuities purchased to date, etc., imposes a relatively burdensome mass of detail on the insurance company so that actual administrative expenses prior to retirement are probably somewhat higher than under the other funding plans. In addition, the company commonly builds up and maintains a Future Expense Reserve to alleviate the expense burden after retirement when actual administrative expenses usually increase sharply.

Under a straight uncomplicated deposit administration contract where the employer keeps all the records, the actual expenses of the unapplied portion of the fund may be a great deal less than the expenses for comparable coverages under a group annuity contract.

It seems likely that we can safely say that expenses under a trust fund tend to be lower in the early years of the trust and higher in the later years as more and more employees retire. It would seem that actual expenses incurred after retirement should be about the same under all three plans, assuming comparable efficiency of insurance companies and trustees.

In considering the true expenses of your plan, you should include the salaries and other overhead expenses relative to your employees who work full or part time on your plan, as well as any fees you may pay for actuarial or legal services.

Turnover

Termination of employment and consequent withdrawal from the plan by some employees is another factor that may be considered in funding a pension plan under a deposit administration or trust fund arrangement. Advance consideration of this factor is not possible under a group annuity contract because of the rigid obligation to buy annuities according to a predetermined schedule for each covered employee.

Any large well-established employer can, by examination of his past employment records, estimate with reasonable accuracy the turnover among his employees in future years. Using this data, the employer may compute a discount for turnover factor which would reduce each deposit. This factor is very similar to a discount for mortality factor and the same arguments would generally apply. In effect, the employer is attempting to fund pensions only for those employees who will stay in his employ until they retire. The turnover factor should be recomputed occasionally to take into account any significant changes that have occurred since the last computation.

Future Changes in Salary Levels

Future changes in salary levels is a possible funding factor much like the turnover factor. It can be considered under deposit administration and trust fund methods, but not under a group annuity contract.

If your basic formula or a significant minimum benefit formula depends upon terminal earnings, you will be well advised to anticipate this cost. By reviewing the salary histories of a large number of older employees, you may be able to make a reasonable estimate of the amount that your present employees will earn during their terminal years of service. Using this factor you can estimate the cost of the benefit, or the additional benefit in the case of a minimum, to be provided at retirement.

Conclusions

We may draw a few conclusions, in addition to those already expressed, from the statements that we have made with respect to the various advantages and disadvantages to be found in relation to funding a pension plan under these three methods. I realize that all of you may well take issue with them inasmuch as opinions on this touchy subject are very diverse. Actual mortality will be the same no matter what type of pension plan you have, so there doesn't seem to be any choice among them if we assume that you will ultimately have to pay enough money to furnish the annuities paid. Interest or return on the fund is a very important factor. We buyers are forced to weigh the comparative values of rate of return against integrity of fund. Needless to say, both factors are extremely important to you and your employees. With respect to expenses, you must compare the relative efficiencies of the possible handlers of your pension fund (the amount charged per check issued might serve as a rough efficiency gauge). Actual turnover and future changes in salary levels will, like mortality, be the same without regard to the method used in funding your pension plan. In other words, these three factors in themselves will not make your plan any more or less costly under one funding method than under another.

Your plan will probably provide for two or more different benefits, such as future service, past service, supplemental disability, and probably many others peculiar to your own plan, especially if it has been in force very long. It is possible to fund these different liabilities using different funding vehicles and different actuarial assumptions. For instance, it is a fairly common practice to fund future service benefits under a fully insured plan and all other benefits under a deposit administration or trust fund. This arrangement is probably fairly satisfactory although you and your annuitants may be put to extra trouble and expense if there is more than one paying agency involved.

In attempting to analyze the cost of your annuity plan, you will probably have to request certain information and papers from your insurance company. This may come under many different names and it may furnish or fail to furnish many different types of information; at any rate you should be able to get most of the consolidated accounting information in their possession with respect to the operation of your pension plan fund. The following are some of the items that you may receive an accounting of on a year-to-year basis:

1. Your payments to the company.
2. Investment income.
3. Expenses.
4. Annuity and death payments.
5. Refunds to you resulting from termination of employment.
6. Dividends (if any).
7. Mortality credits or charges.
8. Information concerning reserves set up under your plan, such as a contract reserve, future expense reserve, contingency reserve, and very possibly others besides these.

If your plan is trusteed, pertinent information with respect to the reserves, administrative expense, mortality gains or losses, earned interest, and turnover experience can be supplied by your consulting actuary.

By following such a procedure you will put your management in a position to decide what course of action to pursue.

Before you have tied together the completed package, it is necessary that you give careful consideration to the problems incident to the administration of the plan.

It is highly important to the successful operation of a pension program to see to it that the department charged with the responsibility of providing the actuarial evaluation of the plan; that negotiates the underwriting of proposed changes in the insurance contract supporting the pension program; that interprets the various provisions of the plan for the Industrial Relations or Personnel departments; and that furnishes the cost calculations to representatives of the Industrial Relations and Personnel departments, is also charged with the responsibility of administering the pension plan.

I think we all agree that the best planned pension program may lose its effectiveness if it is administered by individuals or departments not familiar with the basic fundamentals of pension planning.

As I stated at the outset, our discussion of the fundamentals of three basic group coverages—Life insurance, hospitalization insurance, and Pensions—has, perforce, been brief, and we have attempted to present only an outline of the essentials of these three basic coverages. I sincerely trust that my discussion may be helpful to you in the analysis and planning of *your* group coverages.

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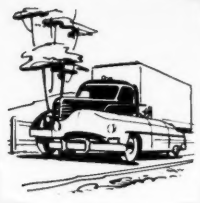

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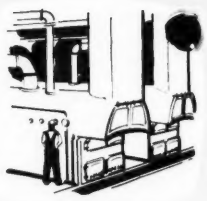

BOILER AND MACHINERY

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GENERAL LIABILITY

GROUP ACCIDENT AND HEALTH

PERSONAL ACCIDENT

HOSPITALIZATION

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Chicago 40

ROOM FOR INITIATIVE

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In the past few years we have all become accustomed to hearing public and semi-public figures step to the platform and elaborate on what they call, euphemistically, "The Big Picture". Their discussion starts with the quick sketching in of the accent features, a moderately pigmented foreground, a very vague background, a wave of the hands and a "Well, that's another problem I've settled!". The trouble is that they have only started. The intent of all such discussions is to motivate those whose minds are engaged otherwise than on the subject of "The Big Picture". The point at which the procedure breaks down is that at which the speaker decides his job is finished, simply because he has spoken. Many, if not most, of the problems which harrass Insurance Producers spring from such failures. The leaders of the Insurance Business must push the pendulum of Control or Supervision back to a normal arc. Now, it covers too much territory simply because too few have dared to fight the "do nothing" trend.

The subjects of Insurance—1944 and Insurance—1954 are not the same, no matter how you wish to look at them. In 1944, Insurance was regulated, in most states, on a basis which approximated English control.

Essentially, this was a negative regulation in that no steps were taken in regulation unless required by a specific situation. Today, positive regulation is the rule and the insurance business is now wearing a garment less comfortable than that of the housewife who at least has a two-way stretch. If this straight jacketing of insurance had the effect of moderating the insurance requirements of Commerce and Industry no one would be the worse off, probably, and many might be benefitted. Our experience has shown us, however, that while our means of insuring problems have been circumscribed, our problems have grown by leaps and bounds. Most of the problems, fortunately, are not effected by excessive control. For example, 1954 manufacturing processes of times require or appear to require, large unbroken floor expanses which cannot rely on normal wall openings for light and ventilation. This creates two problems—capacity and fire control. New Processes call for components which were unknown outside of the reasearch laboratory, ten years ago, and the end result of their use is still largely unknown. This calls for broader Liability forms and greater indemnity limits. Our courts view matters more from the social than from the legal standpoint and juries, climbing on the wagon with joyous abandon, are throwing out self printed travel tickets for the gravy train.

Here we have need for greater public education.

The insurance focal point of all of the disturbances, is the Producer, the Broker or Agent. He has the same job of analyzing the exposure and buying the protection. Today the exposure is greater and the means of affording protection are more restricted but, still, the job must be done. It must be done, moreover, in the same manner you would do it, if you were a direct employee of your insured. You must be identified with his interests.

If it were possible for you to apply standard coverages in all situations, a large part of your worries would be over. But, today, even the most standard of all insurance policies, the Workmen's Compensation policy, requires amendment or enlargement or extension in order to exactly fit the insured's requirements. Now I realize that, at this point, it is standard procedure to resort to metaphorical or allegorical illustration. It should prove something, I suppose, if I were to point out that since all drivers do not wish to drive at the same speed, automobile manufacturers have put accelerators on their automobiles. This would then prove that insurance companies should put "You Select It" modifiers and regulators in their insurance policies but physical property and insurance intangibles can't be measured by the same rule.

The burden of devising, developing the modification required is, properly, the responsibility of the Producer. For this reason I would like to lay out my idea of the specifications which, in their fulfillment, entitle a man to the designation "Insurance Agent" or "Insurance Broker".

His method of solicitation must be professional, ethical and creative. As has oftimes been pointed out, social drinking, golf, and pressure by mutual acquaintances may be a good springboard but it is hardly considered a solid foundation. A solid foundation requires a basic knowledge of the insurable problems of the industry of which the solicited account is a part. It requires pre-approach research in the problems of the company under consideration. Intelligent questioning, in various quarters will permit you to learn a substantial amount about the products, methods of production, sale and distribution of your prospective client. His plant and equipment need not be too foreign to you if you read trade and national interest publications. It is true you will find a great deal of difficulty in learning anything at all about his suppliers, banking connections or customer credit experience but even such information is subject to comparatively close speculation.

Using all of the information at hand, it should be possible for you to set up a tentative insurance program which, with some minor adjustment, can become a customized pattern for his coverage. There are many who will argue that this is entirely too heavy a burden to place on the insurance producer. Many feel that the only pre-approach work which need be done is to obtain a list of prespects from the Chamber of Commerce, check them against a standard financial publication from which the names of the officers and the amount of business they do can be determined, find some mutual acquaintances and drop in saying "How do I get a piece of your business?".

So, leaving the unsuccessful candidate, let's consider the responsibilities which the producer has assumed in acquiring the account. A review of the result of pre-approach work will reveal many blind spots, particularly when a broader knowledge is gained of a company's operations. Insurance policies which were expected to cover completely fall short. It is certainly beyond argument that the joint interest of both insured and insurance company cannot be fulfilled by a standard policy in every instance. At this point, I'd like to digress a bit to discuss a phenomenon of the insurance business.

Many insurance producers take a great deal of satisfaction in reporting that they give their companies only "cream" business. Also, many insurance companies are quite forthright in their desire to write only such business. Yet, in doing so, they are helping their toughest competition. This was most forcefully brought to my attention, one time, by the president of one of the country's largest insufance companies who, referring to it said, "You can do this and become fat, contented and stupid, if that's what you want, but I don't want it!" Continuing, he said, "There are two reasons why I won't permit my people to do business on this basis: First, there would be neither fun nor initiative for our employees so we would have to put up with second rate people; second, this is the most certain way to wreck the American Agency System and, since my company is built on that system, we can't afford the luxury of mental laziness." His company finds a way to write just about any account which is morally sound and well managed.

We return to our successful producer who has now obtained the insurance contract which exactly fills his new client's needs, to see if he may now sit down to rest. I assure you, he can't. Notwithstanding that his Fire insurance policy is the broadest form available in the domestic or foreign market, its rate equitable and the loss adjustment principles of the insurer generous.

The insured, however, doesn't wish to have an adjustment of a loss; he wants no loss to begin with so this creates a new or broader responsibility for the producer. The insurance company's engineers make inspections for the purpose of reducing the probability of fire or allied loss. All of us have seen different kinds of report come from the same engineer according to the time and the circumstance. One report is the typical "book" report which would be referred to by newspaper men as "boiler plate". Its sole purpose is to fill an empty space and be moderately interesting or impressive. Fortunately, this report is not too often encountered when the inspector is experienced. The experienced engineer's report usually is both factual and constructive. The producer's question is, "What do I do about this report?" Inconsequential recommendations should be deleted and compliance ar-

ranged on important recommendations. As we all know, the producer can't very well give orders to his insured so he must do a substantial job of education as time goes on. How does the insured receive the recommendation? Is its purpose to reduce the insurance company's possibility of loss? I don't think so. If we are honest with ourselves we must admit that, regardless of the indemnification which we receive from an insurance company for any property loss, we will suffer an intangible consequential loss which cannot be measured in dollars.

Under the circumstances, if you, the producer, will carefully edit the recommendations to the point where you can honestly show us that the recommendation is for our benefit we invariably will go along with you. Obviously, the more successful the producer is in helping us eliminate losses through the intelligent application of engineering services, the greater his prestige both with his client and with his company.

It might be pointed out that while the corporate insurance executive may be an authority on his own company's insurance, the greatly rounded experience of the trained producer is invaluable to him. A producer having a loss experience in one line of business is in a position to anticipate similar loss sources, involving other clients. A wide awake producer will suggest an increase in limits because something which happened elsewhere has proved as inadequate an earlier concept of indemnification limits. His review of the situation may indicate the need for an insurance contract which has never been considered before. For example, a court recently handed down a verdict of $75,000 to the parents of a child who was murdered by her aunt solely to obtain the proceeds of several small Life Insurance policies.

The Life Insurance companies which issued the policies were the defendants. The plaintiff father charged that in permitting a person without an insurable interest to obtain the life insurance on the child, they had committed a wrongful act. He further claimed that the issuance of the policies induced the aunt to kill the child. Probably this judgment will be appealed; certainly the insurance companies deny any fault or responsibility. As I have tried to point out earlier, the social aspect in the eyes of many attorneys and courts and, as a result, it may now become necessary for a Life Insurance company to buy Malpractice Insurance.

Sometimes the question is raised, "What is the position of the producer, upon the occurrence of a loss?" There are some who are of the opinion that the technical, the legal situation which surrounds the loss adjustment, is not properly a part of the producer's responsibility. I have heard some attorneys refer to participation in loss adjustments as an act constituting practice of law. It escapes me, however, how a man can be charged with so complete a knowledge of insurance as to be permitted, in fact licensed, to prescribe for his clients on one hand and yet be credited with so limited a knowledge of the subject as to be held unable to decide, after the loss, whether it is covered and, if so, to what extent.

So, practice of law notwithstanding, our ideal broker must know what he has sold, both before and after the loss. Before the producer voluntarily accepts such a responsibility he should stop to consider just what this responsibility actually means. It requires an actual application of the knowledge which he gained in his solicitation pre-approach work. It requires that prior to the loss he extended his pre-approach analysis to learn something of the operating, the financial and the accounting practices of his client. He must be able to certify to his client that the claim is a proper claim insofar as coverage is concerned and that its extent is stated with fairness both to insured and insurer.

There is one field in corporate insurance where the producer can prove his worth in a rather dramatic manner. It is generally agreed that the producer has the responsibility for reviewing all Workmen's Compensation Loss Experience. Thus, he should make absolutely certain that the payroll audit is correct. All payroll should be charged to classification. He should make sure that it is the proper classification, however, and not rely on the underwriter or payroll auditor who has made the decision.

It will be found that the all-inclusive nature of many classifications creates an unfair charge in many industries because, in covering so much area, and striking an average for the industry, the more hazardous exposures are unduly benefitted and the minimum exposures unfairly burdened. If necessary, the producer should take matters of this nature before the proper rating authorities and request relief.

The second part of the producer's review of Workmen's Compensation Loss Experience requires a checking of the experience rating data which results in the percentage credit or debit deviation from the standard rate. While it is not the rule, it is sometimes found that cases are charged to one employer when they should have been charged to another. It is also acknowledged that duplication may take place both within a particular year and in consecutive years. For instance, a claim may show up in January and February of the current year or they may show up in December of the prior year and January of the current year. As a result the loss value is duplicated. If the claim happens to be a major claim the cost of the duplication can be substantial. The result of the Producer's investigation is most beneficial to the insurance company and to the producer.

No insurance company wishes to have a mistake of this sort on its books and I have found that they are extremely grateful when an alert producer helps them to correct a source of embarrassment. Also, in correcting the error before it is found by the insured or by a competitor, the probability of loss of the line is reduced.

Equally important is the review of the retrospective adjustment which, through revaluation of outstanding reserves or payment of losses, increases or decreases the retrospective premium. In this portion of the review, the producer is sometimes subjected to criticism by the insurance company. Insurance companies feel that the reserves which have been placed on Workmen's Compensation claims by their examiners are fair and reasonable otherwise the reserves should not be reviewed by producer or insured. At this point I would like to dispel the possible impression that a request for review indicates disbelief. In most instances, the insured hopes to pinpoint and obviate the cause of accident. He endeavors to reduce the severity of injuries. He does his utmost to carry out an educational program in his organization.

It should be obvious that, when case reserves abruptly arise, the employer will wish to reinvestigate his entire situation. He will want to learn not only the extent of increase but the reason for the increase. On the other hand, should the insurance Company reject the review those who are not familiar with insurance practices may conclude that the refusal is because of excessive reserves.

After all, each of the parties to the Workmen's Compensation has both rights and obligations:

The Employee — the beneficiary, has many rights and few obligations, the major of which is that he suffer an injury. His rights are set by statute.

The Employer—the insured, has two sets of rights and two of obligations. They stem from the Workmen's Compensation Law and from the policy. He must pay the employee for all compensible injuries. He contracts with an insurance company to assume the legal financial obligation. He retains certain penalty obligations. Also, he pays a premium charged by the insurance company. A portion of the premium is arrived at by an ex parte action, the setting of reserves.

The Company—the "professional risk carrier" assumes the insured's statutory and common-law liability to his employees. It has the right to make investigations and loss adjustments and to set up claims reserves according to its *best* judgment.

It must act in full faith and not load case reserves for its own benefit. While charges of this nature have been made, I am of the opinion that they are wholly unfounded. At most, I am certain, no insurance company can be charged with more than excessive caution. There is nothing, however, in the policy which creates a right to refuse review. There is a custom in the insurance business by which only company representatives and insurance commissioners are considered as having a proper interest in rate regulation. Evidently this thinking spills over, at times, into the secondary phase, rate application. This is bad public relations. It is hoped that all insurance companies will, in time, welcome the interest of insured and producer.

The Producer—party to the negotiation but not to the contract, has an almost proprietary interest in the operations under the contract. Yet he, too, can find himself in an ex parte position. He should not do this voluntarily.

The producer's first thought is, which action is most beneficial for his client. Should the client insure this exposure fully or take a chance without insurance? The decision should never be made on the basis of "Will I receive a commission?" or "Will he think I am trying to load him up if I suggest that he insure this exposure?"

The insurance producer whose services are most sought after by those who are in the field of corporate insurance administration has the imagination of a research worker, the impartiality and integrity of a judge.

On second thought, it might be well for him to have the bedside manner of the old family doctor, too. There are times when all of us need to be whacked on the knuckles or to have it pointed out to us that we don't necessarily run the whole show. Yes, I think the old family doctor's attitude might help a lot and if you have these qualities, if you will accept your obligations, if you have acquired a sound basic knowledge of insurance, law and economics, you will have the pleasant experience of handling referred rather than solicited business, a most enviable state of affairs.

facts about . . .

THE NATIONAL INSURANCE BUYERS ASSOCIATION, INC.

A CORPORATION

N.I.B.A. is incorporated as a nonprofit association under the laws of the State of Illinois to meet the demand of insurance buyers for national representation.

MEMBERSHIP

Membership in N.I.B.A. is restricted to individuals, firms, corporations, and others with insurance buyer interests, not in the business of underwriting, selling, regulating, or rating insurance, or in the investigation or settlement of claims on behalf of underwriters.

THE ASSOCIATION —

Fosters a close relation among buyers of insurance.

Makes known the insurance needs of business and industry to all who have an interest in the insurance business.

Works with producers, underwriters, committees and others to secure simpler and more adequate policy forms, insurance protection for all insurable risks, adjustments of inequities in rates, and adequate recognition of all factors which enter into rating.

Provides to members an opportunity to exchange ideas, to consult with each other, and to meet with men and women in or associated with the insurance business.

Supplies to members information concerning their organization and its work.

Compiles, publishes and distributes data, periodicals or other literature dealing with insurance and loss prevention.

Aids in maintaining a reasonably competitive insurance market in the public interest and to that end foster a minimum of control with due regard to the financial integrity of the insurance contract.

Through its activities, publications and accomplishments is continually bringing to the attention of Top Management the importance of the professional insurance manager in business and industry and in so doing is promoting the profession of corporate insurance management.

MANAGED BY MEMBERS

Control of the Association is vested in its Board of Directors with Officers usual and necessary to such an association functioning under the supervision of and responsible to the Board. All members of the Board of Directors and all Officers must be duly qualified members of N.I.B.A.

FOR FURTHER INFORMATION — WRITE

NATIONAL INSURANCE BUYERS ASSOCIATION, Inc.

Hotel Martinique — 32nd & Broadway

New York 1, New York

LETTERS TO THE EDITOR

Dear Peter:

I want to drop you a line and congratulate you on the fine job on the first issue of our magazine.

Everyone that I have talked with is most enthusiastic, and it is certainly being well received. Everyone with whom I have talked seems to feel that this is going to be a very important step in promoting the organization to new goals.

Just wanted you to know what an outstanding job you have done.

Best wishes,

J. T. Parrett, Insurance Manager
Carnation Company
Los Angeles, California

Dear Pete:

I certainly want to offer to you my congratulations for the beautiful job you have done in connection with Volume 1, No. 1, of The National Insurance Buyer. This is a beautiful piece of work, and I certainly hope that in the first place it is profitable to the Association, and in the second place, that it encourages contributions from our various members.

Paul H. Schindler
Manager Insurance Department
The Youngstown Sheet and Tube Company
Youngstown, Ohio

Dear Pete:

Permit me to congratulate you on the first issue of "The National Insurance Buyer". It is very well turned out indeed, and I suspect that you personally have had no little part in its production. I hope you will have lots of success with it.

Walter C. Howe, Jr.
Johnson & Higgins
New York, N. Y.

Dear Mr. Burke:

I have just finished reading the first issue of the new "National Insurance Buyer" magazine, and I wish to congratulate you on this issue.

I particularly enjoyed reading the article on Workmen's Compensation and Employer's Liability by Mr. Alger. I believe articles of this type will serve the membership well.

No doubt, by this time you have received a number of letters from irate members of the Minnesota Chapter about the map on the front page in which you have transferred Minneapolis from the State of Minnesota to Green Bay, Wisconsin.

Being a native of Minnesota I want to join in the chorus, and I hope you will pay no attention to any letters of congratulations you may get from Wisconsin members of the association. Please, in the next issue put Minneapolis back in Minnesota where it belongs.

With kindest regards,

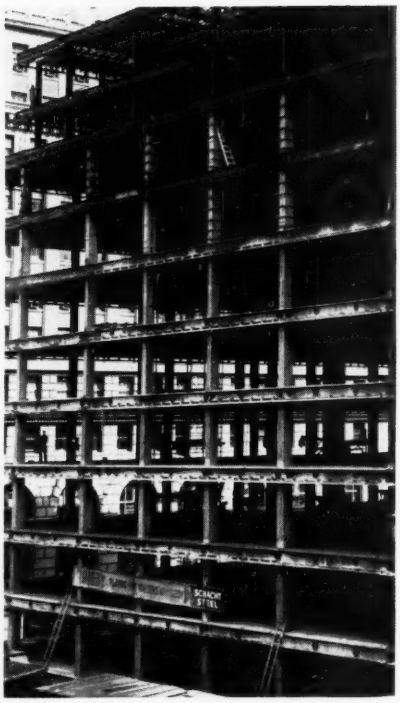
E. T. Berquist
Insurance Manager
The Pure Oil Company
Chicago, Illinois

B. E. Kelley
President, NIBA

I recently finished reading the first issue of the National Insurance Buyers magazine and I found it to be very interesting and informative. I can truthfully say that this is the first insurance publication that I have read that seems to fill the bill as far as I am concerned. I hope that as the association grows that the magazine can come out monthly instead of bimonthly.

R. B. Wiltse, Ins. Mgr.
Automatic Electric Company
Chicago, Illinois

TO OUR CORRESPONDENTS: We extend our thanks for their very complimentary letters.



T'AINT NOISE IT'S MUSIC

(Paging Spike Jones)

The above is a picture of the 19 story office building now nearing completion at 555 Fifth Avenue, New York, N. Y.

While the steel workers were putting thousands of rivets into the steel frame work, thousands of executives, office workers and passersby were reminded by a large sign on the building, that what they were hearing was MUSIC not NOISE. The sign reads: "QUIET! . . . PLAYING THE RIVETERS RHAPSODY—SCHACHT STEEL".

Picture courtesy of

Owner:
Fifth Avenue & 46th Street Corporation
350 Madison Avenue
New York 17, N. Y.

General Contractor:
Psaty & Fuhrman, Inc.
369 Lexington Avenue
New York 17, N. Y.

QUIET PLEASE

"Boilermakers' deafness" used to be the subject of jokes. But it's no joke to New York State industries.

Factory din can prove costly, manufacturers report. They fear it may impair the health of workers and lead to numerous damage suits.

Engineers and doctors are teaming up in the fight against the "decibel," a unit for measuring the loudness of sound.

A whisper at 5 feet is about five decibels. A large cocktail party, a political convention, or an orchestra playing music in a theatre are rated at about 90 decibels. An automobile horn is measured at 115 decibels three feet away. A jet engine, nearby, put out 140.

The Associated Industries of New York State, Inc., is spearheading the battle. Strategy was developed at a recent conference that brought together representatives of 93 industrial units to swap ideas and experiences.

Industry's concern over noise stems from the troubles of Matthew Slawinski, a hammer operator in a Buffalo forge shop. He claimed that the racket on the job had dulled his hearing, he lost no pay and no time from his work.

The court of appeals, in 1948, upheld Slawinski's claim and the decision upset the traditional interpretation of the Workmen's Compensation law: that awards must be tied to loss of earnings.

Manufacturers braced for a flood of claims from employees contending that noise on the job had damaged their hearing.

But the Workmen's Compensation Board ruled that no award for permanent hearing loss could be made until the worker had been away from the noise for at least six months. Any hearing loss should stabilize during this period, the board held.

Associated Industries describes the six-month rule as a "finger in the dike holding in check numerous pending claims and an untold number of potential claims."

The organization says it fears that the stabilization period may be shortened and set loose a flood of claims that "could spell financial disaster for some companies."

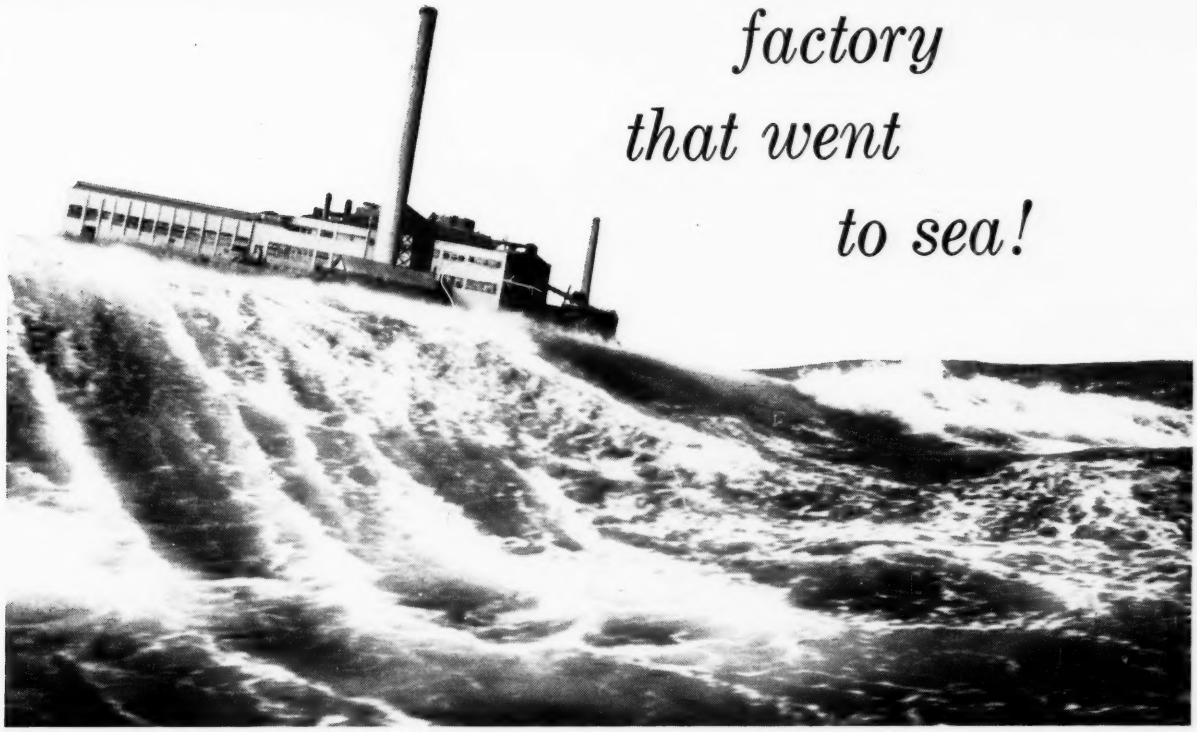
READY MARKET

Surmounting serious difficulties occasioned by inflation which resulted from the Korean war boom, the casualty insurance industry has succeeded in providing a "ready market" for today's insurance buyer, according to Wilson C. Jainsen, president of Hartford Accident & Indemnity Co., speaking before the AMA insurance conference. Among the steps which have been undertaken to achieve stability, Mr. Jainsen stressed these three: 1. Introduction of a rate level adjustment factor into the workmen's compensation insurance rating structure; 2. Introduction of trend factors and projection factors into automobile insurance and liability insurance rates to make them more quickly responsive to fast-changing conditions; 3. Intensified effort in the development of a capacity for the handling of large interstate risks under one uniform rating program and at a reasonable and understandable cost level. The net effort of the extensive adjustments, Mr. Jainsen said, is that **"today the insurance buyer is able to purchase the coverage he desires and at a price that is fair to both insurer and insured."**

PURE OR SPECULATIVE

The corporate insurance manager should concern himself only with "pure risk" and not with "speculative risk" involving the possibility of profit, according to H. P. Stellwagen, executive vice president of the Indemnity Insurance Co. of North America. He told insurance managers they should not try to deal with loss arising from wrong executive decisions, from inadequacy of a research laboratory, from failure of a product to perform as intended, or from the incompetence of salesmen. Instead, he said, protection should be sought against such hazards as: Destruction of property in which the concern has a pecuniary or insurable interest by fire, wind, explosion and other perils; contingent and consequential loss, including loss of income; loss by theft, including the infidelity of employees, and loss from workmen's compensation and third party claims.

The factory that went to sea!



Not long ago, a man came to the United States to buy a cotton mill. When the deal was closed, he ordered the mill "wrapped up and sent" to Pakistan!

Brick by brick, the factory was taken apart. Every loom, vat, nut and bolt was crated, sent to New York and loaded onto a ship. But the transaction could never have taken place without one item the buyer carried back in his pocket – insurance!

Every part of it – marine and shore covers–was arranged through a single source, American International Underwriters.

For 35 years, AIU specialists have been writing broad forms of protection that conform to insurance laws and customs of the country concerned.

Claims are handled on the spot, by men of unquestioned ability and integrity. Payment is prompt, and in the same currency as the premium. This includes U. S. dollars where local laws permit.

Financial stability is assured by the strength and security of leading insurance companies in the United States.

A phone call will place AIU's world-wide experience at your service. Offices are listed below.

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American International Underwriters companies

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Bangkok—1169 New Road
Beirut—Bisharat Building, Parliament Street
Berlin—138 Clay-Allee, Berlin-Dahlem
Bermuda—Woodbourne Bldg., Hamilton
Bogota—Edificio de la Bolsa
Bonn—21 Roemerstrasse, Bad Godesberg
Boston—148 State Street
Bremerhaven—Building F., Barkenhausenstrasse 14
Brussels—5 Rue de la Science
Buenos Aires—Avenida Roque Saenz Pena, 648
Caracas—Edificio Karam, Ibarras a Pelota
Casablanca—11, Avenue de la Republique
Cebu—Osmena Building
Chicago—208 South La Salle Street
Chittagong—Sadarghat Road
Dacca—19 Frashganj Road
Dallas—801 Corrigan Tower
Detroit—Free Press Building
Frankfurt/Main—2 Mainzer Landstrasse—Rossmarkt 14
Fukuoka—47 5-chome Watanabedori, Fukuoka-shi, Kyushu
Hanoi—8 Rue My-quoc
Havana—Obispo 306
Hong Kong—12-14 Queens Road Central
Houston—1619 Melrose Building
Kanazawa—1 5-banchi, Ura-cho, Misokura-machi
Karachi-Nadir House, McLeod Road
Kobe—32 3-chome Kaigandori Ikutaku
Kuala Lumpur—Loke Yew Building
Kyoto—Matsubara-agaru Karasumarudori Shimogyoku
Lahore—Laxmi Mansions, 49 The Mall
London—46 Moorgate, E. C. 2
Los Angeles—612 South Flower Street
Manila—153-155 Juan Luna Street
Mexico City—Avenida Juarez 28
Milan—Via dei Giardini 7
Munich—18 Moehlstrasse
Nagoya—117 2-chome Miyukihonmachi Naka-ku
Naha—C.P.O. Box 56
New Orleans—831 Whitney Bank Bldg.
New York—102 Maiden Lane
Osaka—25 4-chome Doshomachi Higashiku
Paris—52 Rue St. Lazare
Paris—7 Place Vendome
Penang—2A Church Street Ghaut
Phnompenh—5 Quai de Verneville
Rangoon—555 Merchant Street
Rio de Janeiro—Edificio Seguradoras, Rua Senador Dantas 74
Rome—Piazza San Bernardo 101
Saigon—15 Rue Lefebvre
San Francisco—206 Sansome Street
Sao Paulo—Rua Libero Badaro 152
Seattle—811-814 White Building
Shizuoka—15 4-banchi 1-chome Ryogaecho
Singapore—Finlayson House, Raffles Quai
Tangier—18 Rue San Lucar
Tokyo—8 2-chome Ohotemachi Chiyodaku
Washington, D. C.—312 Barr Building
Yokohama—Nishida Building, Naka-ku

AGENCIES IN

Agana, Alexandria, Amsterdam, Athens, Balboa, Barquisimeto, Barranquilla, Basse-Terre, Bridgetown, Cabanatuan, Cairo, Cartagena, Charlotte Amalie, Christiansted, Colombo, Ciudad Bolivar, Ciudad Trujillo, Davao, Djakarta, Georgetown, Guatemala City, Guayaquil, Hamburg, Iloilo, Jesselton, Kingston, Kuching, La Ceiba, La Paz, Legaspi, Macao, Madrid, Managua, Maracaibo, Mayaguez, Medellin, Miri, Naga, Nassau, Oranjestad, Panama City, Papeete, Paramaribo, Ponce, Port-au-Prince, Port-of-Spain, Port Said, Puerto Cabello, Puerto La Cruz, Pusan, Rangoon, Rotterdam, Samar, Sandakan, San Juan, San Pedro Sula, San Salvador, Sarikei, Seoul, Sibu, St. Nicholas, St. Thomas, Tacloban, Tawau, Tegucigalpa, Valencia, Willemstad, Zamboanga.

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V
C
I
2